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and Modern Industry

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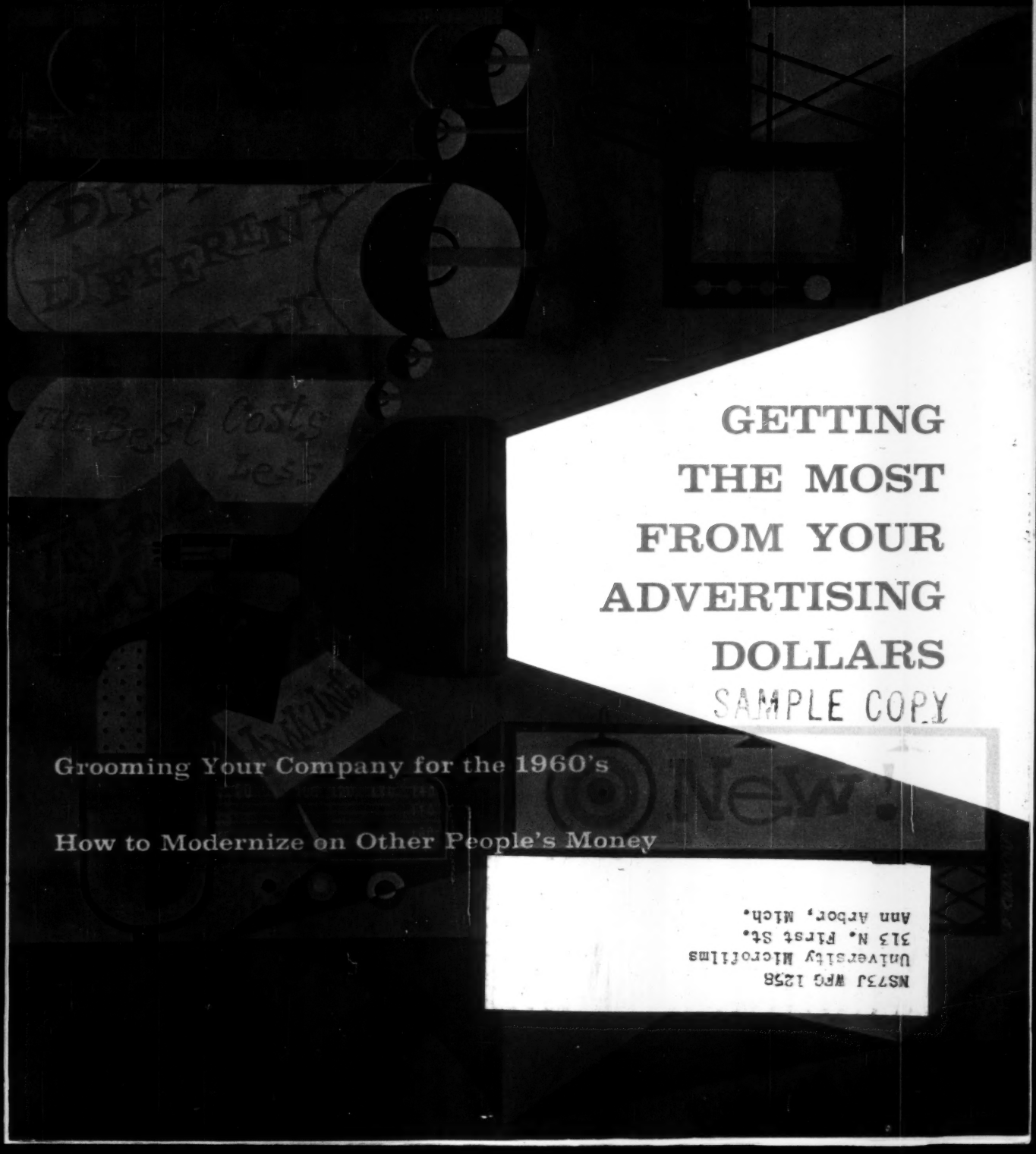

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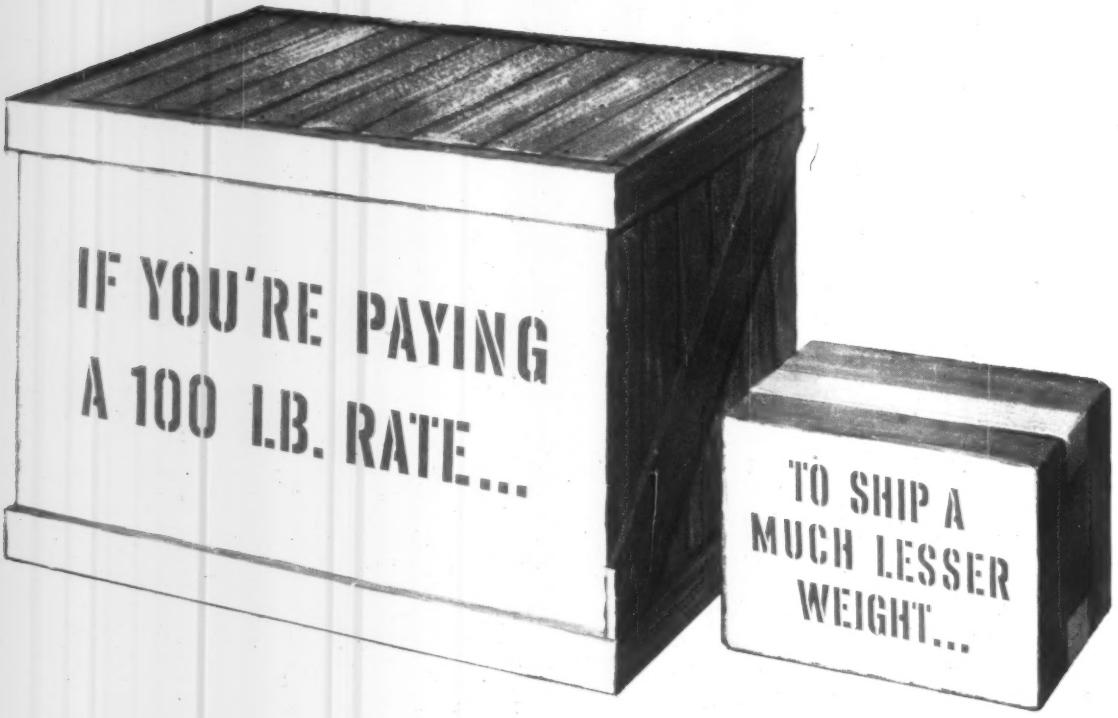

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DUN'S REVIEW and Modern Industry

October 1958

Vol. 72 No. 4

Articles and Features

Grooming Your Company for the 1960's 31
Be sure you're not missing these important bets in planning your company's growth program.
JOHN C. J. WIRTH and THOMAS J. CARLEY

How to Modernize on Other People's Money 34
If you need new equipment but can't tie up the capital, maybe leasing is the answer—and maybe it isn't. FAYE HENLE

New Bargaining Climate for Big Labor 36
It's been a long, hot Summer for the UAW, and other unions are feeling the heat from another quarter. JAMES MENZIES BLACK

Operation High Temperature 38
Missile-makers spark a technological drive that promises new profit opportunities for industry. MELVIN MANDELL

Industry Tightens Up on Executive Expense Accounts 40
Lush executive spending has proved a juicy target in 1958's big cost-cutting campaign. ART ZUCKERMAN

Small Business Goes International 85
How some typical small companies are going abroad to boost their profits, broaden their markets. ALEXANDER O. STANLEY

The New Welfare and Pension Law: What Employers Need to Know . . 42
HORACE E. SHELDON

How to Profit While Doing Good ALFRED G. LARKE 43

14 Important Ratios in 12 Retail Lines ROY A. FOULKE 44

On the Way: Help for Business Taxpayers PAUL WOOTON 123

Special Feature

GETTING THE MOST FROM YOUR ADVERTISING DOLLARS. 47
An eight-part special feature designed as a balanced, down-to-earth guide for the top management reader.

Why Management Is Reappraising Advertising ELDRIDGE PETERSON . . 49
Marketing Is Management's Job GEORGE FROST 50
Finding the Agency That Fits Your Needs ROBERT E. LUSK. 52
When It's Time for a Change JOHN ORR YOUNG 53
Budgeting Your Advertising for Profit FRANK W. MANSFIELD 54
Setting the Budget for Industrial Products JOSEPH E. BACHELDER . . . 55
It's Mutual Confidence That Counts WILLIAM A. MARSTELLER 56
Building a Productive Partnership ROBERT M. GRAY 57

Departments

Editorial: *Let's Try a Cruising Speed* 3
The Trend of Business 5
Looking Four Quarters Ahead 6
Business Failures 14
Voice of Industry 16
Washington Business Front 23
International Markets 85
Inside Industry 103
Executive Bookshelf 106
Capital Views & Previews 123
The Reviewing Stand . . . 138

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Editorial

Let's Try a Cruising Speed

NEITHER MAN nor machine is designed to operate at peak power indefinitely. Nor is the economy which man and his machine create capable of constant acceleration.

The pressures of competitive enterprise encourage men to drive themselves and all the instruments of their business life at an increasing pace. This encourages better machines and more efficient methods, but only up to the point where the machinery of distribution is fatigued or temporarily saturated.

Most machines, like most men, have three basic speeds—maximum, cruising, and idling. It is at the cruising speed that we perform best from the standpoint of our economic and physical welfare. We need the reserve power of top speed in an emergency. There are times, also, when it is best for man or machine to idle without a load to carry or pull. But there is satisfaction in the efficiency of a cruising speed, which gives us the best results for our expenditure of fuel.

Maximum demands on men or machines increase the danger from fatigue of mind or metal. The flywheel, the governor, and other stabilizers of energy are designed to give the machine a smooth power flow. In the same way, the Federal Reserve Board regulates the energy of credit to control power pulsation in the national economy.

The test of prosperity is consumption, not production, and the rate of consumption is influenced by the public appetite for consumer goods. When the customer grows fearful or abstemious and decides "to get along without" something, the flow of goods becomes sluggish all along the channels of distribution. Over-production is often the result of following a selfish, top-speed policy when a cruising-speed program would be more profitable. The glutted market destroys current profits and delays future returns. There must be a proper understanding of both market potential and consumer psychology, for the consumer buys according to his desires rather than his needs.

To achieve a cruising speed which is less costly and more profitable than alternate peak and idling speeds, marketing research—rather than machine capacity—is the obvious guide to sensible production schedules. The excessive production of automobiles in 1955 contributed to the stalled economy of 1958—a period in which producer, craftsman, and distributor all shared in an error of judgment. Fortunately, there were stabilizers in the food, chemical, and drug industries to maintain a sales momentum, and the durable industries are making a determined comeback.

It is important to know that our nation has strong reserve power and can call upon it in an emergency. It is even more important to remember that men and machines give a better account of themselves at a cruising speed.

The Editors

End 10-minute waits for "1-minute" copies... put a Bantam Copier in every department!

Almost everyone in business today knows the savings possible with an office copier—how it ends hours of typing, speeds communications, and allows short cuts for boss and secretary.

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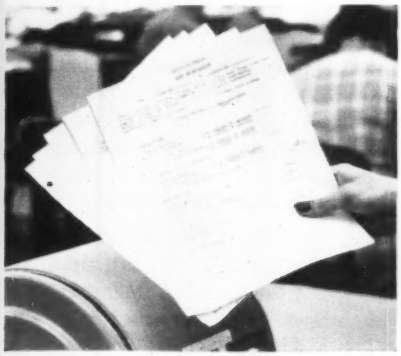

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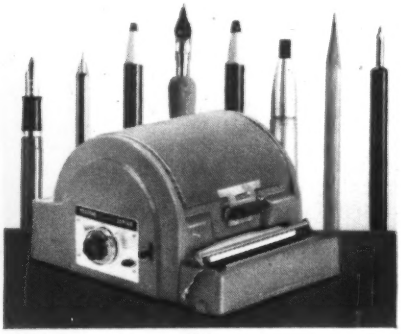

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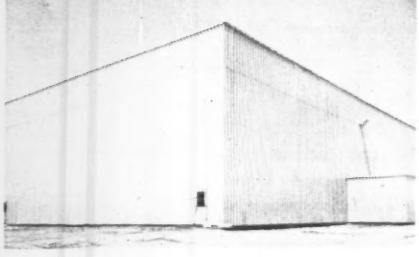
Stainless Steel walls eliminate three months of construction and a lifetime of maintenance

Three men easily install a 28-foot-long Stainless Steel panel section during construction of the Yoder Company plant in Cleveland, Ohio. Because Stainless Steel walls are so easy to erect, this plant was completed in six months instead of nine months, saving three months of valuable time.



This new plant was completed six months after the ground-breaking. Three months were saved in construction time because of the speed with which the workmen were able to erect the gleaming Stainless Steel walls.

The plant owner got a three-month jump on his production schedule, and he saved thousands of dollars in maintenance costs. These walls will *never* have to be painted, scraped, pointed or resurfaced because Stainless Steel resists corrosion. The building will always look clean and new—rainfall will often wash away dirt. Sub-zero winters are no problem because the Stainless Steel panels have a full inch-and-a-half layer of insulation—a better thermal barrier than that provided by 16″ walls of other materials.

Plans have been made to expand the plant in a few years. It will be an easy job because the Stainless Steel walls can be moved out, the space filled with new panels, then the original wall repositioned—with no loss of material.

Fast, easy construction; low cost; no maintenance; flexibility. They're all yours when you build with Stainless Steel. For more information, write to United States Steel, 525 William Penn Place, Pittsburgh 30, Pa.

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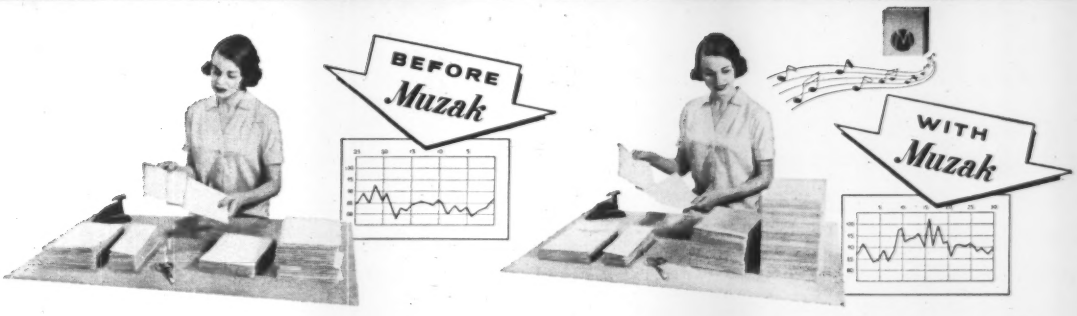
NEW EVIDENCE: *Muzak* IS AN EMPLOYEE BENEFIT THAT PAYS



24 Test Workers Do 8% More
Save Prentice-Hall $4,482

The Impressive Results of a One-Year Study by Top Management Engineers

PERSONNEL EXPERTS have long known that custom-created work music by MUZAK can improve employee efficiency, work attitudes, productivity. In some work situations, however, the *amount* of improvement is difficult to measure with scientific accuracy.

But now, utilizing highly advanced management techniques, an extensive one-year study has been conducted by a well known firm of management engineers, Stevenson, Jordan & Harrison, Inc. The results provide striking evidence of the dollars-and-cents value of MUZAK.

The Prentice-Hall Story

The workers studied were women employees in a mailing room of Prentice-Hall Inc., a large publishing house in the New York City area. The women sit at tables, nesting and inserting by hand, mailings which cannot be machine-inserted. The job involves basic clerical work.

Records of the number of pieces inserted by 24 test workers were made during the 24 weeks *before* and the 32 weeks *after* MUZAK was introduced. As outlined in the management engineers' full report, every precaution was taken to eliminate from the survey any factors which might distort the data. *Yet after the introduction of* MUZAK, *production of these 24 workers rose an average of 8.03%.* And not through any objectionable pressure – but with the addition of an environmental change 98.1% said they liked.

Like a $100,000 Increase in Sales

Prentice-Hall's own "Personnel Policies and Practices Service," a widely read bi-weekly report for personnel executives (commenting on the study) estimated that the *net* savings on these 24 workers alone, after the modest cost of the MUZAK service was deducted, came to $86.20 per week – or $4,482.40 a year!

How much would an 8% increase in worker productivity mean to *your* company? $5,000? $10,000? Even more? In a recent article in FORTUNE, it was estimated that "a saving of $10,000 a year in office costs might be the equivalent of the net profit earned on a sales increase of $200,000."

The Secrets of MUZAK's Results

The monotonous nature of many jobs in offices and plants understandably causes boredom. And boredom leads to nervous tension, fatigue, poor concentration, costly mistakes, time-killing, and clock-watching.

Psychologists have discovered that *scientifically planned* background music can relieve this worker tension and its costly consequences. Ordinary music and music systems, however, can't do the job properly. In fact, they often make matters worse. Twenty years of MUZAK research have established certain minimum requirements for a successful work music system, such as:

YOU NEED A SPECIAL KIND OF MUSIC which is "heard but not listened to." MUZAK has its own exclusive vast library of custom-created *non-distracting* background music.

YOU NEED "CONTROLLED DYNAMICS" to penetrate noise barriers, mask out unwanted noise, without becoming distractingly loud – a technique MUZAK has pioneered.

YOU NEED A COMPLETELY AUTOMATIC SYSTEM which avoids the cost of assigning personnel to purchase and store records or tapes, determine schedules, operate and maintain equipment. A flick of a switch brings you MUZAK!

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OFFICES find MUZAK cuts down errors, reduces day-dreaming, bickering, restlessness.

FACTORIES AND PLANTS report that MUZAK decreases turnover, absenteeism; lessens boredom and idle conversation.

BANKS find that MUZAK benefits both customers and employees. Provides inviting atmosphere—reduces fatigue and mistakes by personnel.

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A FREE COPY – *"How MUZAK Affects Profits"*

Prentice-Hall is one of three MUZAK subscribers recently participating in a "before-and-after" study by Stevenson, Jordan & Harrison, Inc. There is not room here to report in detail their findings, facts sure to interest anyone concerned with more profitable management methods. The results of these three studies, together with another interesting MUZAK case history, have been published in a new booklet, *"How MUZAK Affects Profits."* A copy is yours for the asking. Simply mail the coupon.

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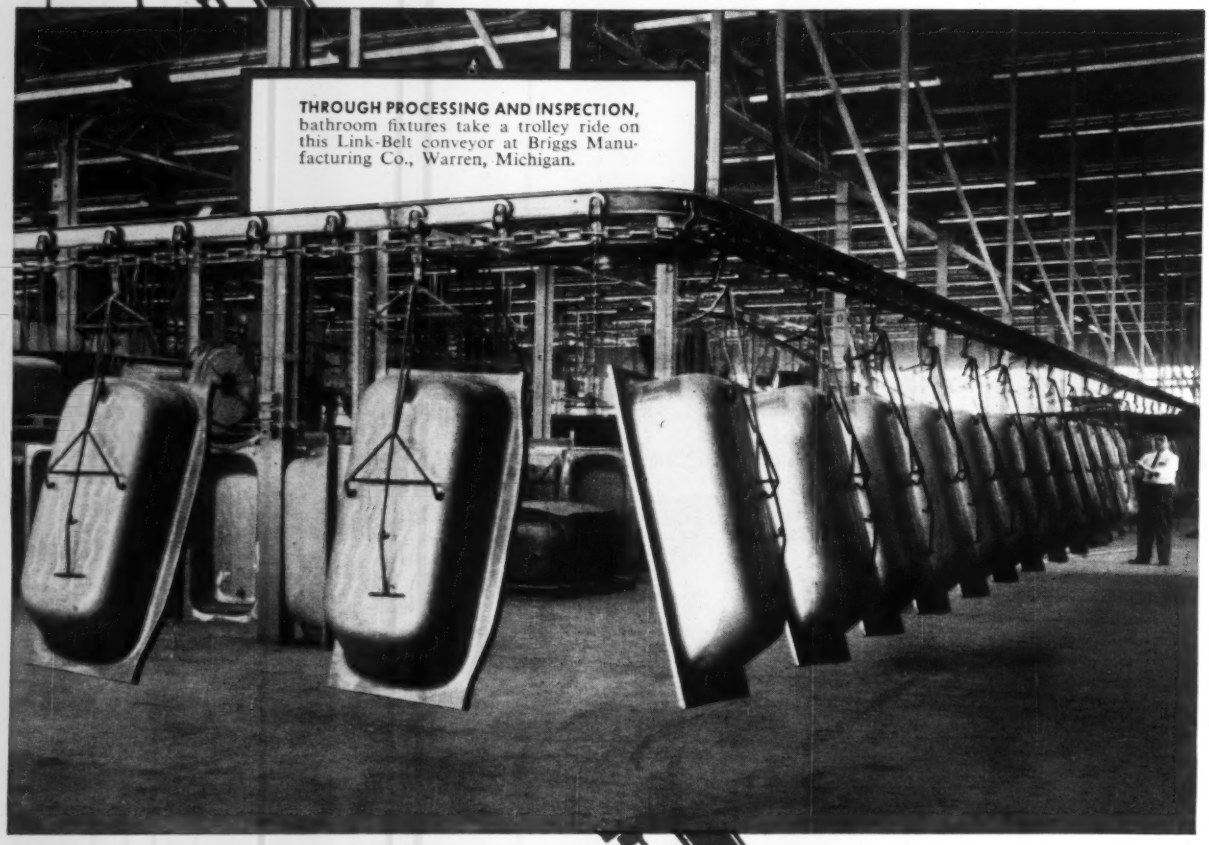

THROUGH PROCESSING AND INSPECTION, bathroom fixtures take a trolley ride on this Link-Belt conveyor at Briggs Manufacturing Co., Warren, Michigan.

link scattered processes in straight-line sequence

IF you are losing production hours because of delays in the transfer of materials between operations, you stand to profit significantly with a Link-Belt trolley conveyor system. Like a suspended superhighway, it connects wide-spread plant areas . . . assures a continuous flow of material.

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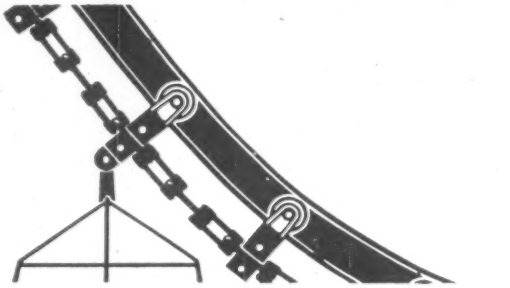
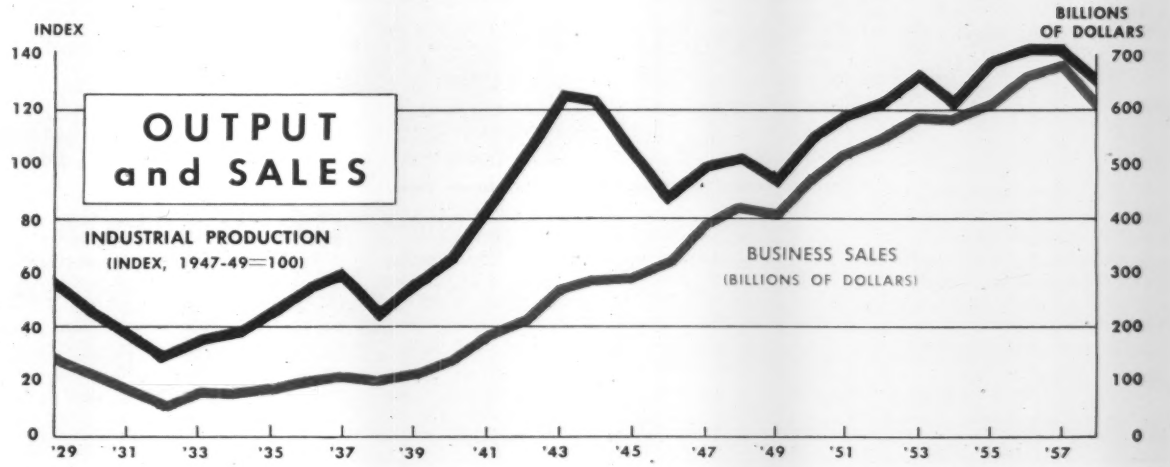


LINK-BELT

TROLLEY CONVEYORS

LINK-BELT COMPANY: Executive Offices, Prudential Plaza, Chicago 1. To Serve Industry There Are Link-Belt Plants and Sales Offices in All Principal Cities. Export Office, New York 7; Canada, Scarboro (Toronto 13); Australia, Marrickville (Sydney), N.S.W.; South Africa, Springs. Representatives Throughout the World. 14,759



ALTHOUGH *production and sales will move up appreciably during the fourth quarter from the previous three months, it is estimated that the levels for this year will fall moderately below 1957 levels. Sources: Federal Reserve Board and Dept. of Commerce.*

Recovery Gains Momentum

THE BUSINESS NEWS in recent weeks brought with it more signs that recovery from the recession low of last Spring is well under way. The question is now how rapidly business will convalesce, and how soon the 1957 peaks will be matched.

Briefly, here is the present outlook: Industrial production will move up gradually for the rest of the year and reach an all-time high sometime in the Spring. This will mean a steady rise in employment and payrolls, which in turn will hold personal income at record levels.

With more money in their pockets, consumers will spend more, and retailers and wholesalers will increase their orders accordingly. By year-end, manufacturers' orders will have risen far enough to signal the start of a new inventory build-up, and many will begin thinking about plans for new plants and equipment. Corporate profits will improve, but they will remain below comparable year-earlier levels well into 1959.

Appreciable gains in the output of durable goods helped over-all industrial production in late Summer climb to a level halfway between the recession low of April and the highs of early 1957. Business men were especially encouraged by the news that industries producing heavy production equipment stepped up their output. (In the two previous post-war recessions, output in the equipment industries continued to decline after the over-all index passed its low point.) This increase will continue to contribute to the rise in industrial production well into next year.

Steel output going up

There has been noticeably greater optimism in the steel industry in recent weeks. New orders—particularly from the construction, petroleum, and farm implement industries—moved up appreciably. These bookings, as well as those from appliance manufacturers and automotive producers, will gain momentum later in the Fall. Some order backlogs will result, but steel supplies will not be tight for the remainder of the year.

Hovering around 75 per cent of rated capacity, steel output will reach its highest 1958 levels in the fourth quarter. The rate will not equal pre-recession peaks, however, until next Spring.

The level of steel output will depend a good deal, of course, on the automobile situation. Steelmen and most other business men will watch both the sales and labor situations in the automotive industry. Auto makers are banking on the introduction of 1959 models to stimulate consumer interest and shrink the big year-to-year gap that has prevailed in auto sales throughout 1958. If sales pick up appreciably and there are no prolonged labor difficulties, auto output will expand substantially for the rest of the year.

The output of paperboard, lumber, oil, and electric power all reached 1958 highs in late Summer, and this trend will continue into the Fall and Winter. Production levels in these industries will be close to those of 1957.

Behind the rise in industrial production will be a slow but steady increase in manufacturers' sales and new orders, with the most significant gains occurring in the durable goods industries. Bookings in non-durables will move up fractionally. There will be a little more inventory reduction among manufacturers, but in the coming months the sales-stock ratio (or amount of goods on hand in relation to current sales) will be at year-earlier levels. This too will encourage manufacturers to step up production.

Prospects for the machine tool industry are less bright. Shipments continue to exceed incoming business by a substantial rate, and order backlogs are low. This situation will persist in the fourth quarter, but will improve gradually after the start of the new year.

The recent rise in sales, and other favorable business news, has tended to halt the decline in capital expenditures. Business spending in the third quarter,

Looking Four Quarters Ahead . . . .

First Quarter 1958*	Second Quarter 1958*	Third Quarter 1958†	*Figures in billions of dollars at seasonally adjusted annual rates*	Fourth Quarter 1958†	First Quarter 1959†	Second Quarter 1959†	Third Quarter 1959†
425.8	429.0	439.3	GROSS NATIONAL PRODUCT	450.6	457.7	464.9	470.7
286.2	288.3	291.3	CONSUMER SPENDING	295.0	298.2	301.5	304.5
89.5	91.0	93.0	GOVERNMENT OUTLAYS	94.6	96.2	97.9	99.9
50.1	49.7	55.0	PRIVATE INVESTMENT	61.0	63.3	65.5	66.3

*National Income Division, U.S. Department of Commerce †Commentators' estimates

THE NOW much-vaunted rebound in business appears certain to carry over after July 1, 1959. At this writing, it is likely that the nation's total output of goods and services (gross national product) will hit a new high this Fall and move to a seasonally adjusted annual rate of some $470 billion by next Summer. This forecast assumes that credit will be tightened only gradually and that, at most, only a moderate check on the rise in defense spending will result from governmental efforts to economize.

However, the projected advance, while very impressive, is not so strong proportionately as that occurring between Summer 1954 and Summer 1955 and will probably not push activity back to full-employment level. While both industrial output and total physical output may well reach new peaks, the odds are against gains from pre-recession level large enough to match interim growth in our capacity to produce.

All three principal classes of spenders —consumers, private investors, and public authorities—will contribute to the upswing.

Consumer spending should rise substantially. Purchases of services and soft goods will register the largest absolute gains, despite some softening in food prices. Proportionately, however, the uptrend should be strongest in durables. A revival in auto buying seems imminent, and the step-up in housing should spur purchases of furniture and some household appliances.

The over-all gain in *private investment* will reflect across-the-board improvement. Looking at major components:

1. Spending for *producers' durable equipment* and *nonresidential construction* should begin to rise after year-end, if not this quarter—with a step-up in business purchases of plant and equipment reinforcing further advances in outlays for private institutional building and by farmers.

2. Outlays for *nonfarm housing*, now surging upward, will continue to increase, at least into next Spring.

3. *Net foreign investment* promises to rise moderately over the next year.

4. Changes in the pattern of *inventory investment* will likewise operate to swell demand. The past three quarters have been marked by heavy liquidation. The odds now, however, are that sellers will begin to restock this Fall and be adding significantly to their holdings in 1959.

Finally, in the case of *Government outlays*, continuance of the recent rate of rise in spending by states and municipalities (about $3 billion per year) will be buttressed by a significant jump in Federal buying. Most of the latter gain will reflect larger purchases for defense and growth in Commodity Credit Corporation outlays to support farm prices, but a marginal net gain seems likely elsewhere, too.

EDWIN B. GEORGE, *Director of Economics*
ROBERT J. LANDRY, *Economist*

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after adjustment for seasonal factors, was estimated to be at the same annual rate as the second quarter. A slight rise will come about in the fourth quarter, according to a joint survey conducted by the Securities and Exchange Commission and the United States Department of Commerce. Total expenditures for the year will amount to about $31 billion—down 16 per cent from the record outlay of $37 billion in 1957. The steep decline in business spending was one of the primary reasons for the recent recession, and business men were heartened by the prospects of an unexpectedly early turnabout.

Research spending gains

Business men will continue to spend more for research and development. A recent study made by the American Management Association showed that budgeted expenditures for research so far this year were up 4 per cent from 1957. Increases were evident in eighteen of the 24 industries covered in the survey, with the most marked rises in service machinery, chemicals, food and beverages, and stone, clay, and glass.

Although increased production and an improvement in capital spending will help boost employment and reduce unemployment, there will be no marked changes until a noticeable rise in industrial output has occurred. While the number of unemployed declined at the end of the Summer, the dip was less than seasonal, and the unemployment rate equaled the post-war peak of 7.6 per cent of the labor force, set in October 1949. The rate will decline slowly during the fourth quarter of this year, but it will remain well above a year ago. The year-to-year increase in unemployment will be due partly to a continued rise in job seekers.

More jobs, higher earnings

The increase in the factory work week that began in late Spring will continue through the end of the year, and more activity in durable goods will help average weekly earnings move up steadily. This will result in a continued record level of personal income during the fourth quarter and into 1959. Wage and salary disbursements, at present still behind their year-ago level, will edge up and match the comparable 1958 levels toward the end of the year.

As employment and income rise, consumers will spend more during the Fall and Winter months. The better-than-expected response to back-to-school and Fall apparel sales promotions indicate that over-all retail sales for all of 1958 may match or slightly exceed the record level set in the preceding year. Most retailers look forward to the best Christmas selling season on record, which would help recoup the losses that occurred earlier in the year.

Apparel and appliances

Shoppers will show more interest in major appliances, but sales volume will remain below a year ago. Increased buying of upholstered chairs and juvenile merchandise will boost total furniture sales up to 1957 levels by the end of the year.

The upswing in food purchases at retail will continue, making 1958 another record year. Best-sellers this Fall will be fresh produce, fresh meat, canned goods, and frozen foods.

The recent upsurge in consumer buying of Fall apparel brought about a sharp rise in the attendance at wholesale apparel markets in New York and other centers. Buyers were anxious to replenish depleted stocks of women's and children's Fall merchandise and

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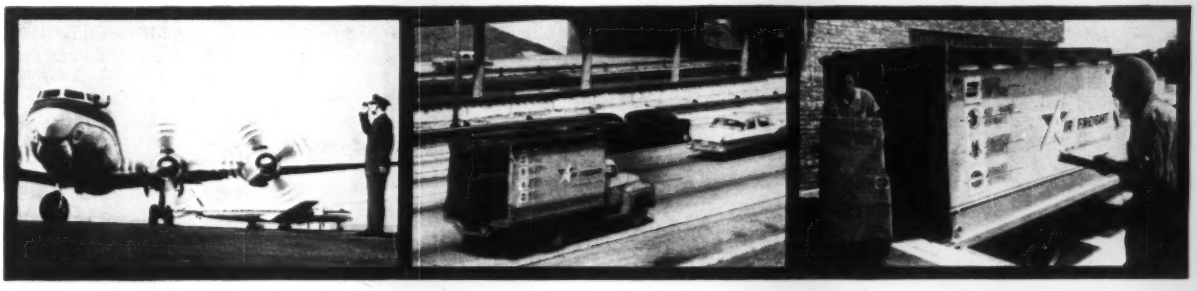

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Weekly Business Signposts

	Latest week	Previous week	Year ago
Steel ingot production (Ten thousand tons (a))	179	177	211
Electric power output (Ten million KW hours (b))	123	120	120
Bituminous coal mined (Hundred thousand tons (c))	83	70	101
Automobile production (Thousand cars and trucks (d))	55	31	66
Department store sales (Index 1947–1949=100 (e))	145	123	140
Bank clearings, 26 cities (Hundred million dollars (f))	24.0	20.2	24.0
Business failures (Number of failures (f))	262	256	287

SOURCES: (a) Amer. Iron & Steel Inst.; (b) Edison Electric Inst.; (c) U.S. Bureau of Mines; (d) *Automotive News*; (e) U.S. Bureau of Labor Statistics; (f) DUN & BRADSTREET, INC. Steel data for the fourth week of September; automobiles for the third week; all others for the second week.

prepare for the Christmas season.

Wholesalers of appliances can expect a rise in orders for television sets, automatic laundry equipment, and lamps and lighting fixtures in the coming months, but volume will remain slightly below year-ago levels. Trading in furniture will be close to that of a year ago, as a result of increased bookings in juvenile merchandise, bedding, and upholstered chairs.

Total wholesale volume will advance noticeably in the fourth quarter over the prior three months, although over-all sales in 1958 will be down moderately from the year before.

Prices edging up

Although consumer prices will level off in the next month or so as a result of record harvests, they will resume their slow climb, along with housing, services, and transportation costs, during the first part of 1959.

In seeking to curb inflation and sustain the value of the dollar, the Federal Reserve Banks in New York and three other cities recently increased their charge for loans from 1¾ per cent to 2 per cent. Although some observers welcomed this action as a good preventive measure against inflation, others feared it might hinder new financing and slow up the recovery.

Eyeing the recent pick-up in business activity, the Federal Housing Administration reported a slight increase in late Summer in the discounts on mortgages it insures. It is unlikely that this will have much effect on applications for mortgage insurance on proposed new homes. The rise in applications that began in early Summer will continue for the rest of the year.

The pace of private home building in the fourth quarter will remain slightly above that of a year ago, and housing starts for all of 1958 will amount to about 1.1 million units, compared with just under 1 million for 1957.

Despite the decline this year in industrial building, increases in private and public housing and expansion in highways will be sufficient to boost the total dollar value of construction put in place for all of 1958 slightly over that of a year earlier. Physical volume, though, will stay about the same as last year.

Good year for farmers

This year will turn out to be a much better one for farmers than was 1957. Farm income for the first three quarters of 1958 was 19 per cent higher than the comparable period a year ago. This was the result of higher farm prices, increased marketings, and larger Government payments. The increase in income more than offset gains in costs.

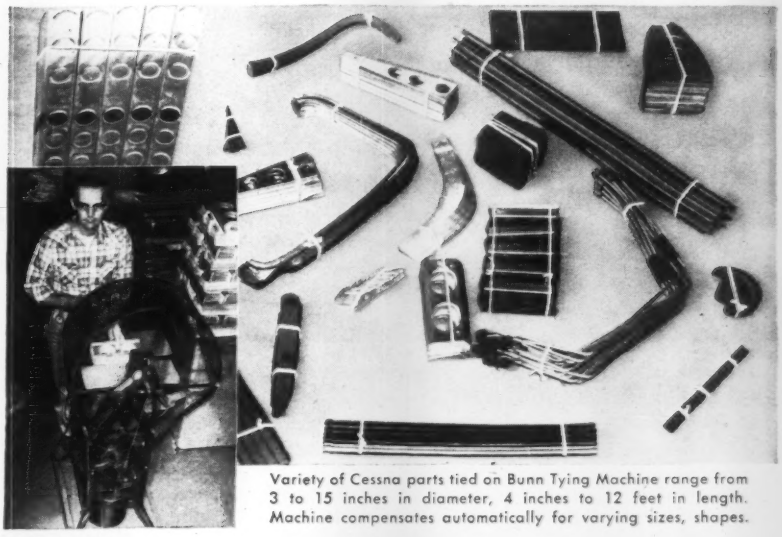
This rise in farm income will level off during the fourth quarter. The Government forecast is that the total volume of crops for 1958 will be 9.5 per cent higher than the previous peak. This will mean a decline in prices received by farmers and, along with a continued rise in production costs, will slow up the recent rise in income.

While the dollar volume of exports will remain noticeably below last year during the fourth quarter, it will rise slightly from the previous quarter. Exports have dropped from unusually high levels caused by increases in shipments of oil, wheat, and cotton during the Suez Canal crisis in 1956. There will be no significant rise in exports until next year. Although the year-to-year decline in imports was less severe than that in exports this year, officials expect no real pick-up until an appreciable gain in exports has occurred.

Ignoring international developments, stock trading was extremely active in late Summer, and prices in mid-September were close to the historic highs of 1956. Many observers, who felt that the rise of recent weeks outpaced the rate of recovery in over-all business activity, thought that prices were dangerously high.

Following the Federal Reserve action increasing the discount rate, many commercial banks boosted their lending charges. Although the increases were slight, business men were anxious to see what effect this would have on the volume of business loans. Right before the action, they had been rising. This trend was sustained in mid-September, with all the Federal Reserve areas reporting increases from previous weeks in commercial and industrial loans, but the totals remained well below year ago levels.

This report was prepared in the Business Economics Department, DUN & BRADSTREET, INC., by John W. Riday.



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Failures . . Latest trends in business casualties

Casualties, Liabilities Hit '58 Low

THE FAILURE PICTURE brightened noticeably in August, with both the number of casualties—1,127—and dollar liabilities—$50.8 million—falling to the lowest levels so far this year. Fewer businesses succumbed than in August last year—the first time since October 1957 that the mortality has dipped below comparable year-ago totals. Liabilities, however, remained 17 per cent above those in the previous August, boosted by casualties with liabilities above $100,000, which were almost half again as numerous as last year.

Related to the operating business population, the failure rate dropped to 54.0 per 10,000 enterprises listed in the DUN & BRADSTREET *Reference Book*. This was slightly higher than the 53.4 rate a year ago. Down considerably from earlier months this year, this rate extends monthly casualties to an annual basis and adjusts for seasonal variations.

The month-to-month drop occurred in all size groups and in all functions, except wholesaling and commercial service, where food dealers and repair concerns boosted the tolls appreciably. In retailing, the decline from July was general. Eating and drinking places suffered the only rise.

Construction and retailing had fewer concerns failing than in August 1957. General builders and subcontractors accounted for the construction decline, while the retail dip was concentrated in apparel, general merchandise, and house furnishings. Tolls continued above last year in many retail trades, including food, automotive, and building materials. Among manufacturers, casualties edged 1 per cent above 1957. Slight advances in most industries outweighed dips in chemicals, leather, and transportation equipment.

Seven of the nine major geographic regions reported a July-to-August downturn. But mixed trends prevailed from a year ago. Casualties continued to climb in the East North Central and Middle Atlantic states. They fell below 1957 levels in five regions, noticeably in the South Central and West North Central states. Meanwhile, New England and Mountain states totals held about even with last year.

FAILURES BY DIVISION OF INDUSTRY

	Cumulative Total (January–August)		Total liabilities in million $ (January–August)	
	1958	1957	1958	1957
MINING, MANUFACTURING	1903	1594	177.4	138.3
Mining—coal, oil, misc.	63	40	11.2	6.8
Food and kindred products	141	120	13.2	8.2
Textile products, apparel	375	342	27.5	21.7
Lumber, lumber products	363	322	23.0	17.3
Paper, printing, publishing	124	87	6.6	5.7
Chemicals, allied products	45	44	2.7	3.9
Leather, leather products	73	49	9.3	5.5
Stone, clay, glass products	42	40	7.8	1.8
Iron, steel and products	121	71	11.1	23.9
Machinery	193	166	19.9	17.5
Transportation equipment	52	47	13.7	4.6
Miscellaneous	311	266	31.2	21.4
WHOLESALE TRADE	985	831	53.2	51.1
Food and farm products	238	193	14.6	13.1
Apparel	49	31	2.3	2.2
Dry goods	31	20	0.9	0.8
Lumber, bldg. mats., hdwre.	122	100*	8.3	5.8*
Chemicals and drugs	31	33*	0.7	1.2*
Motor vehicles, equipment	46	47*	1.4	2.5*
Miscellaneous	468	407	25.0	25.5
RETAIL TRADE	5286	4743	164.1	127.3
Food and liquor	766	760	17.1	15.5
General merchandise	204	204	7.9	8.7
Apparel and accessories	843	800	23.4	16.2
Furniture, furnishings	765	705	32.7	26.6
Lumber, bldg. mats., hdwre.	351	328	11.5	9.6
Automotive group	762	564	29.8	13.3
Eating, drinking places	983	864	27.0	20.2
Drug stores	114	104	2.9	2.7
Miscellaneous	498	414	11.8	14.5
CONSTRUCTION	1471	1397	81.0	77.6
General bldg. contractors	602	538	43.8	44.0
Building subcontractors	787	777	27.5	26.5
Other contractors	82	82	9.7	7.1
COMMERCIAL SERVICE	806	728	43.5	29.9
TOTAL UNITED STATES	10451	9293	519.1	424.2

Liabilities are rounded to the nearest million; they do not necessarily add up to totals.
*Revised.

THE FAILURE RECORD

	Aug. 1958	July 1958	Aug. 1957	% Chg.†
DUN'S FAILURE INDEX*				
Unadjusted	48.6	54.1	48.1	+ 1
Adjusted, seasonally	54.0	58.2	53.4	+ 1
NUMBER OF FAILURES	1,127	1,253	1,145	– 2
NUMBER BY SIZE OF DEBT				
Under $5,000	150	175	163	– 8
$5,000–$25,000	531	583	565	– 6
$25,000–$100,000	337	381	342	– 1
$100,000 and over	109	114	75	+45
NUMBER OF INDUSTRY GROUPS				
Manufacturing	206	255	204	+ 1
Wholesale Trade	108	105	97	+11
Retail Trade	549	613	588	– 7
Construction	158	181	165	– 4
Commercial service	106	99	91	+16
LIABILITIES (in thousands)				
CURRENT	$50,765	$65,375	$43,514	+17
TOTAL	53,521	67,255	43,810	+22

*Apparent annual failures per 10,000 enterprises listed in the DUN & BRADSTREET *Reference Book*.

†Per cent change, August 1958 from August 1957.

In this record, a "failure" occurs when a concern is involved in a court action or voluntary action likely to end in loss to creditors. "Current liabilities" here include obligations held by banks, officers, affiliated and supplying companies, or the governments; they do not include long-term publicly held obligations.

This report was prepared in the Business Economics Department, by Rowena Wyant.

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Recovery in Capital Goods: How Far Ahead?

ALSO: *The Urgent Need for Profits; Competing in a Land of Plenty; When Population Zooms, Business Booms*

Excess Capacity Stalls Buying

ALBERT S. BURGOYNE, *vice president, E. W. Bliss Company, before the National Industrial Conference Board.*

An air of optimism is beginning to overshadow the pessimism that has prevailed in the capital goods field for the last year. But many economists and research men still feel that industry has such an excess of capital goods that any major buying in this area will be curtailed for another year or more.

Since manufacturers constitute their market, the machine tool builders have been especially hard hit. The press industry sales for 1955 were over $250 million. Sales dropped to $106 million in 1956, and the industry will be lucky if it reaches $30 million this year. This same situation has been prevalent throughout the machine tool industry, and companies with record sales and earnings in 1956 and 1957 were down 79 per cent in sales for the corresponding 1958 period.

Our estimate for 1959 is not very encouraging, but there are a number of problems facing the machinery and equipment industry. Imports are rising and exports are falling, corporate retained profits and machinery orders are falling, and this pattern should continue until the economy is back on its feet, for companies operating near the break-even point are not in the market for much machinery.

However, the major problem is excess capacity. Today production is at the level of the late '30's—only 70 per cent of capacity. It is our contention that industry will not expand facilities unless it is working from 85 to 90 per cent of capacity. We forecast that manufacturing capacity will only increase 2 to 3 per cent over the next three years, but the rate of industrial production probably won't reach the pressure point of 85 per cent until 1960. In fact, a significant upsurge in capital goods may be delayed another year—that is, until 1961.

The long-range outlook is much more encouraging. In the next decade, GNP has a projected growth of 41 per cent, while the growth of the labor force is

Coming Next Month

Company Presidents Size Up the Board

Part I of a Special Presidents' Panel Report

A crucial aspect of the company president's job—especially in times of pinched profits and stockholder pressures—is his working relationship with the Board of Directors. Yet, for obvious reasons, little light has so far been shed on this key area by the men who know most about it—company presidents themselves.

Next month's DR&MI will present an "authoritative" scoop on this little-publicized subject—Part I of a special two-part analysis of President-Board relationships, based on a detailed, confidential survey of DR&MI's Presidents' Panel of 162 industry leaders. Be sure to read "Company Presidents Size Up the Board." It's an article no top management man can afford to miss.

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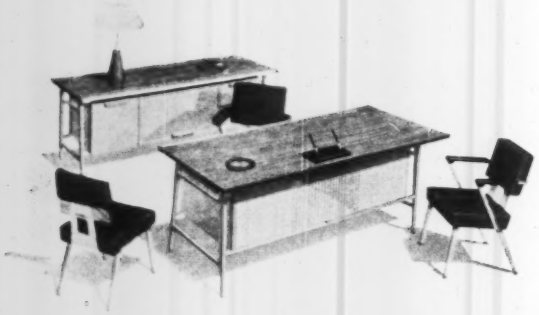

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only projected at 13 per cent. The machinery industry must provide the increase in productivity necessary to attain the forecasted growth in gross national product. Therefore, machinery industry sales are estimated to increase 51 per cent from about $30 billion to $45 billion by 1967 in terms of constant 1957 dollars.

Profit Shortage Inhibits Growth

JOHN N. HART, *controller, B. F. Goodrich Company, before the Rotary Club of Akron, Ohio.*

There is an urgent need for more profits in the United States in order to encourage industry to take the risks of innovation which result in new products, lower costs, and an over-all improvement in the standard of living.

Profit margins have been declining, and total dollar profits after taxes have averaged less in recent years than they did ten years ago. (In 1948, profits after taxes on all industries in the United States amounted to about $20 billion, or about 9.2 per cent of the national income. In 1957, profits after taxes were still $20 billion and about 5 per cent of the national income.)

During the same nine-year period, the amount of goods and services produced in the nation increased by 38 per cent. The compensation of employees including wages, salaries, and other employment costs went from $140 billion to $254 billion, which was an increase of $114 billion, or 81 per cent.

The present tax laws do not permit business to deduct sufficient amounts for depreciation to have enough money set aside to replace worn out and inefficient buildings and equipment. Therefore, profits are really being overstated on the books of most companies. Furthermore, the proportion of machinery and equipment that is over 20 years of age is unusually high and will have to be replaced in order to offset high labor costs and help us to compete with producers outside the U.S.

American companies must have money for investment abroad if they wish to maintain their share of world markets. And if present wage inflation continues in this country, American companies will have to have plants abroad in order to make goods cheap enough to sell in our domestic markets.

I really want to believe that "everything is going to be all right," but I can do so only if there are some changes in the basic economic trends that have prevailed in the United States during the past ten years.

"Too Much" Is a Good Thing

LOUIS WARE, *chairman of the board and chief executive officer, International Minerals & Chemical Corp., before the Chemical Specialties Manufacturers Association.*

"Too much" seems to be the greatest worry of the American business man. I maintain that surpluses are normal and good for the country. It's hard for us to appreciate that fact fully because we have always been a nation of plenty, except, of course, for the minor deprivations we had during the wars when we were forced to use the old car and eat more sensibly for a period. But it's easy to see that if we are to have *enough* of the essential good things in life, we must have *more* than enough. There *must* be provision for growing and sudden demand, if your needs are to be fully supplied. We can't always have just exactly enough and no more.

Take agriculture as the most outstanding example of "too much." When you think of our problem as one of plenty versus want, you realize that the problem of handling our surpluses is really a minor one. We are fortunate to have enough agricultural products and to be able to supply others in the world who need them so badly.

The farm stabilization program of our Government has been expensive and something less than perfect, but it is a start toward handling this problem, and it is being improved. It is far better to keep our farming industry strong by a system that promotes conservation of soil and endeavors to equalize the farmers' income with other incomes than it is to allow our agricultural industry to deteriorate.

We have a surplus of manufactured goods in this country because we have had tremendously increased technological advances in our methods and equipment for production. Developments today are moving fast in all fields, and with such speed there is certain to be over supply and rapid obsolescence of plants and processes. It requires intelligence for people to live and prosper under such conditions.

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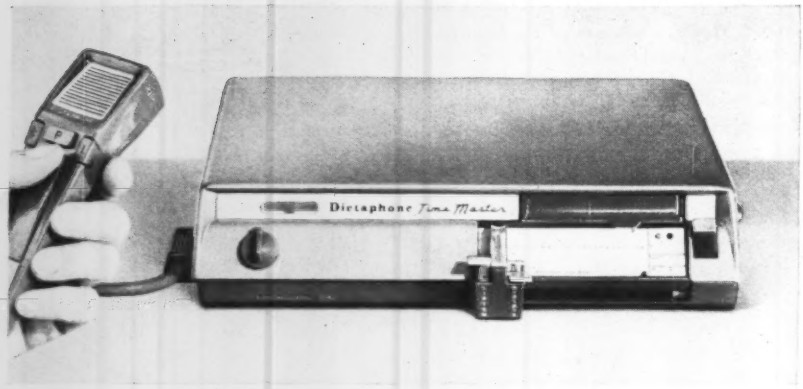

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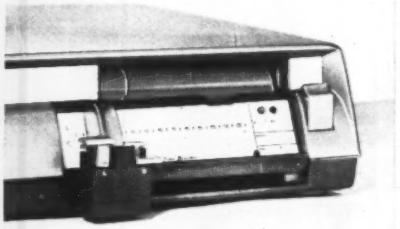

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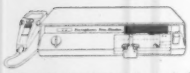
DICTAPHONE  TIME-MASTER

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us, not abnormal, and we must learn to live and operate profitably in such markets. An undersupplied market is not a proper one, and while you or I might profit temporarily by high prices and shortages, it is most often a situation that is short-lived. We must face up to manufacturing and selling in fully-supplied markets. We must have the skill and ability to satisfy our customers and make a reasonable profit in business where there is too much.

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I. WAYNE KELLER, *controller, Armstrong Cork Company, at Bentley School of Accounting and Finance commencement.*

Growth in population and in family units by 1965 will increase greatly the demand for services such as telephones, auto repair, radio and TV service, and home repair and modernization. These, coupled with the expanded wholesale and retail trade required to meet the needs of more people, will expand commercial construction. Expanded educational facilities will be required, and the recreational factor will also add to the coming boom. Vacation periods are becoming longer. A shorter work week is quite probable. With more leisure time, people will be seeking more things to do away from their jobs. They will be travelling and adding to their output for pursuing their hobbies.

All these assumed increases in business will occur even if there are no new scientific developments or inventions. But certainly there will be. The spending for industrial research is increasing even today. From the laboratories will come countless brand new products ranging from gadgets to products that could start a whole new industry, just as the television industry came into being within the span of our memories.

When the effect of all of these developments on present industrial production capacity is considered, there is only one conclusion. It is inadequate. Meeting the demands for factory expansion will add to the boom. It appears quite reasonable to forecast gross national product $600 billion by 1965 in contrast with a level of about $430 billion today. Whether this great potential for economic growth is realized depends upon the decisions we make in these critical intervening years.

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WASHINGTON Business Front

JOSEPH R. SLEVIN

WASHINGTON, D.C.—A quiet revolution is under way in United States foreign economic policy. The Administration has been committing itself to new foreign assistance programs at a pace that would have given it the shudders as recently as last year. Chief architect of the revised approach is New York investment banker C. Douglas Dillon, the Under Secretary of State for Economic Affairs. The steps being taken mark a fresh recognition by the United States of the importance of foreign economic measures in countering the worldwide Communist threat.

The Administration is adding billions of dollars to existing foreign assistance programs, and it is embracing "soft loans," regional lending, and commodity stabilization techniques that had been anathema to American policymakers in years past. All the evidence is that the measures put forward thus far are but a beginning.

Billions to lend

It is difficult to say which is the more surprising—the magnitude of the new commitments or the sharpness of the break with past policy positions.

Consider that Congress this year added $2 billion to the lending authority of the Export-Import Bank, voted $400 million more for the fledgling Development Loan Fund, and authorized the Administration to make a further $2.25 billion of surplus commodities available to friendly countries in exchange for their own currencies.

Shortly after Congress adjourned, President Eisenhower called for bolstering the lending power of the International Monetary Fund and the International Bank for Reconstruction and Development. Talk has been of 50 per cent increases in the Fund quota and in this country's stand-by commitment to the Bank. A Fund increase of that size would cost the United States $1.375 billion, but the World Bank portion would not involve a cash outlay, since the Bank would use the enlarged American "subscription" as a guarantee to support sales of dollar bonds to private investors here and abroad.

Mr. Eisenhower coupled his Fund and Bank proposals with a cautious indorsement of a new world lending agency that would be affiliated with the Bank, would be called the International Development Association, and would make "soft loans"—credits in dollars or other hard currencies that would be repayable in the soft, nonconvertible currencies of the underdeveloped borrowing countries.

Rupees for dollars

The United States had persistently opposed "soft loans" as unsound until the Eisenhower Administration adopted the principle last year in obtaining Congressional approval of its plan to add the Development Loan Fund to the foreign aid program. But even then the Administration had remained skeptical of plans for setting up "soft loan" international lending agencies. It had feared that any lending institution that provided funds in dollars and was repaid in Indian rupees, Greek drachmae, Egyptian pounds, or Argentine pesos would become insolvent unless the wealthier countries continued to inject fresh capital. Many top financial officials still voice that fear.

The IDA actually is only one of three "soft loan" institutions that the United States has endorsed since mid-year. The other two are proposed regional banks for the Middle East and for Latin America. It's a good bet that a regional bank for Asia will take its place alongside the proposed Middle-East and Latin American institutions before the year is out.

It isn't possible to estimate the cost of the proposed regional banks, for their constitutions haven't been drafted and their size hasn't been determined. A rule of thumb used within the Administration is that the U.S. contribution to each of the regional banks probably will total about $100 million. The contribution to the IDA might be bigger.

Outcome in doubt

Actually, whether there is to be an IDA at all is still uncertain. The answer will emerge from negotiations that were set in motion this month when the Boards of Governors of the 67-nation Bank and Fund held their annual meeting in New Delhi. Other countries may be reluctant to supply sufficient capital to get the project under way.

The Monetary Fund provides short-term, three-to-five year loans to countries that are suffering temporary shortages of foreign exchange. The Bank supplies long-term development loans and in the most recent twelve-month period it provided $750 million in new credits—almost entirely to underdeveloped lands.

Loans totalling $3 billion and stand-by credit pledges have reduced the Fund's available assets to about $1.4 billion of gold and convertible currencies. It is this portion of the assets that Britain and other potential borrowers would like to see enlarged. A country is permitted to borrow up to 100 per cent of its quota, and the $1.3 billion that Britain obtained at the time of Suez represented its full quota. But if all quotas were to be increased 50 per cent Britain could look forward to calling upon the Fund for a total of $1.950 billion should the need arise.

Will prices hold steady?

Government economists are nursing a hope that prices may not rise much—or even may hold steady—over the next twelve months. It's not something that they are predicting. Business activity could turn up more strongly than they expect—a development that would increase the pressure on prices. But they can point to encouraging signs of approaching stability. Price tags on a few major consumer goods have been

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Market Research—A Snell client with a waste product had briefly considered building a plant to use it to manufacture another product; but had given up after their own brief survey showed the new product to be already overproduced. When they consulted Snell for checking, however, Snell predicted there would be a shortage within three years. The client waited two years, built the plant—and now has a profitable new product instead of a waste!

Toxicology—One of the largest frozen food companies began getting complaints on the flavor of one of their green vegetables. Since hundreds of thousands of dollars were at stake, they consulted Snell to find out what was wrong. Snell by analyzing tests, and checking on the farm, was able to prove that the taste—actually toxic—was due to a new type of insecticide sprayed on the fields hundreds of yards away on a windy day long before the harvest!

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trimmed. Food prices are scheduled to drop with heavy meat marketings. There still is considerable excess industrial capacity, which means that there's likely to be vigorous competition for the consumer's dollar. Those big consumer inventories that everyone was talking about when buying slacked off during the recession remain, and that suggests consumers may still be choosy.

Wages will continue to rise. But the economists suspect that employers are going to be tougher—and that wage increases are going to be smaller than they have been. Productivity is expected to rise as the country comes out of the recession, and that should provide a significant offset to cost pressures.

High cost of money

One cost that has climbed swiftly since last Spring is the price of money. Bankers like to say that money is the cheapest commodity a business man can buy, but it has become a good deal more expensive since the recovery movement began. Interest rates tumbled at a record pace after the Federal Reserve System abandoned its tight money policy in mid-November of last year. They rose almost as drastically this Summer after the money market became convinced that the recession had ended. Interest charges never did drop back to where they had been during the 1953–1954 recession. The current advance in money rates began from an appreciably higher level than the rise that occurred during the 1955–1957 boom.

The Treasury had to pay 4 per cent to borrow when the tight money pressures were at their peak fourteen months ago. There's no telling how much it will have to pay when full employment returns this time. Some experts think it will be substantially more than 4 per cent. An important but unmeasurable psychological factor has been added to the equation. People now expect price increases and have become leery of fixed income investments. They might decide they want a little added return as a premium to protect their capital against the continuing erosion in the value of the dollar.

New labor law?

Labor legislation is becoming a bitter Congressional election campaign issue, and it bids fair to become a hot legislative issue when the 86th Congress meets in January. The Kennedy-Ives anti-racketeering bill could have become law if business groups led by the United States Chamber of Commerce and the National Association of Manufacturers hadn't blocked action because they objected to sections that would have modified several Taft-Hartley Act provisions. What business wants now is a straight anti-racketeering bill that in no way alters existing labor laws. END

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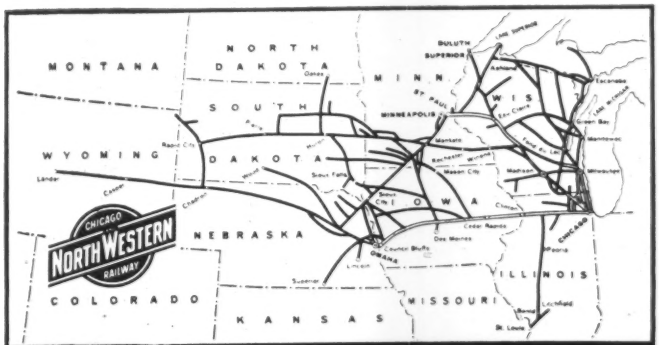

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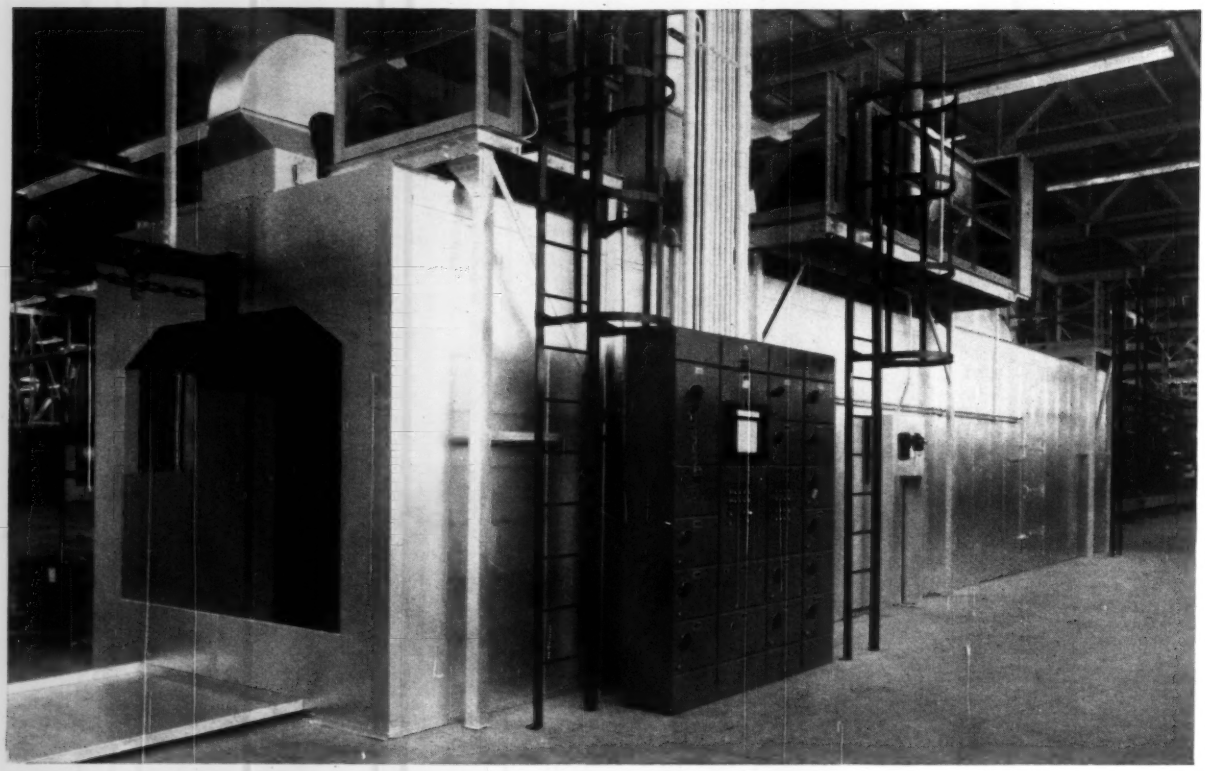

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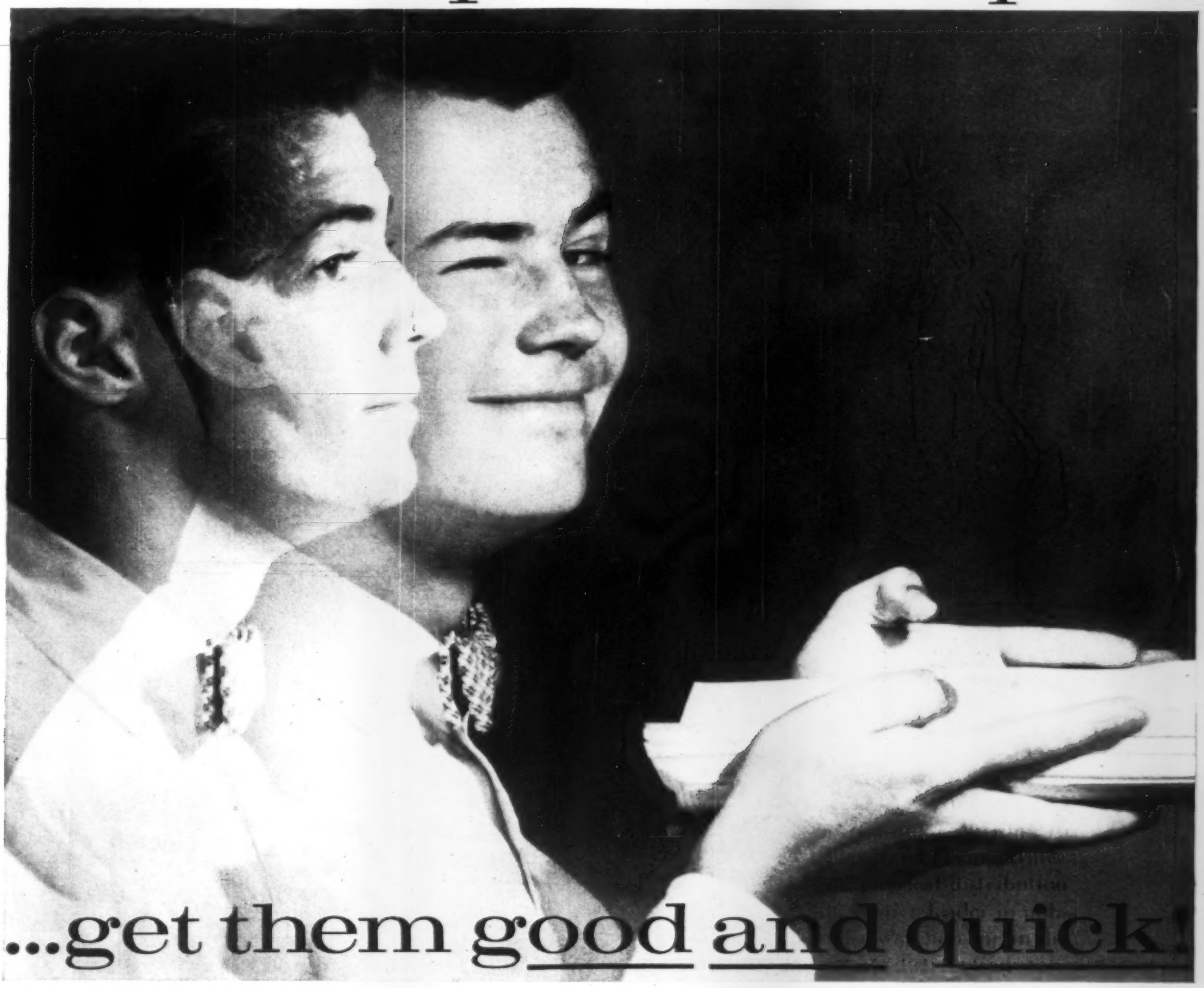

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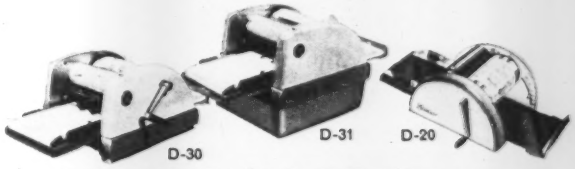

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AN INTERESTING feature of the boom that ended in 1957 was widespread diversification. There seemed no end to capital expansion programs, and buying other companies was distinctly fashionable.

A few business men, looking skeptically at the corporate conglomerations that the merger process sometimes produced, wondered if they weren't among the excesses, like convention junketeering and overstuffed expense accounts, that would disappear when business conditions turned more competitive. In a few cases, events have already confirmed these doubts about some of the wilder excursions into new fields. But, after a year of cooler economic climate, most companies seem as interested as ever, perhaps more so, in diversification in its broader aspects.

The lure of new lines

When sales of regular lines turn down, it's natural to look for offsets through the acquisition of another business or the development of new lines. If a company depends heavily on products or markets that have momentarily been hard hit, like machine tools or the automobile industry, management may begin to explore lines and consumer markets that traditionally have been more stable.

If management has only been able to maintain volume at the expense of profit margins, diversification may look like a path out of the jungle of tooth-and-claw competition. During the boom, some mature industries with narrowing opportunities for long-term growth were carried upward by the powerful surge of general prosperity. Now that the impetus has weakened, downtrends in these fields are becoming more apparent.

In textiles, for example, many companies have sold their assets and reinvested their capital in entirely different industries with greater scope

for dynamic expansion. Long-established hard goods manufacturers are trying to escape from profit anemia in the same way.

Cyclical stability, greater profitability, more room to grow—these are the primary objectives. But sometimes diversification offers by-products equally vital to a company's continued economic health.

Product diversification was the dominant objective when an old-line snuff manufacturer recently acquired a vigorously growing company in the food specialty field. An "extra dividend" was a rebirth of management's confidence in its own capacity for growth and its adoption of a modern merchandising and marketing philosophy. This new thinking is helping to stimulate snuff sales, and the company is building new markets and selling new products.

With powerful incentives to diversify, companies are looking for the best way to go about it under present conditions. The most obvious course is acquisition: buying the company that already makes the earnings you'd like to make, or already has the product you'd like to have. An alternative is the "do it yourself" method: carve out your own market in a new field, or develop your own new product.

Both methods have their advantages and disadvantages. Which one is better for any particular company depends, ultimately, on individual circumstances.

A buyers' market

Management can hardly be blamed for thinking that the general business slowdown has made it considerably easier to acquire a company. Asked how they thought the recession had affected the acquisition market, a majority of investment bankers, business brokers, and financing and management consultants agreed that more companies are for sale, buyers are fewer, and prices are lower.

But the shifts do not appear to be dramatic, and they are qualitative rather than quantitative in nature. "For Sale" signs are posted on more businesses, but many of these seem to be the marginal enterprises that are always likely to run into trouble when the economic cycle turns down. Whenever the index of business failures increases, so does the number of companies for sale.

There may be fewer buyers, but those who are in the market today

Diversification Means More Than Acquisition

The many ways of broadening a company's earning base through new products and markets may all be considered forms of diversification. Besides buying a going business, you can diversify by:

New sales methods

Intensified marketing and merchandising in your present markets can increase both your share of the market and the total market for your product. You might consider new packaging, new distribution methods, salesmen's incentive compensation plans, and the use of public relations to broaden the base of product demand.

Examples: The long-declining pipe tobacco business has finally begun its upward turn as a result of a well-organized industry program of public relations, coupled with aggressive marketing and new packaging.

The introduction of disposable miniature salt boxes has increased the over-all market for salt. Besides being more convenient to carry, these boxes are, in many instances, discarded before their contents have been used up.

The packaging of antacid pills in convenient tablet form has expanded the total market because the package is more readily available than the bottle on the shelf of the medicine cabinet. It is interesting to note that new digestion tablets have not had to rely on switching consumer demand from competing products but have carved out their own niches.

Several hand-tool manufacturers have followed the lead of the bread and milk routemen and use door delivery instead of the conventional distributor-dealer distributor relationship. Many American housewives would have aching backs today if the vacuum cleaner manufacturers had relied solely on dealers and department stores, and had not used door-to-door salesmen.

How to proceed: Find out what the ultimate consumer wants and needs. Find out how to reach new basic markets created by ever-changing consumer preferences. And finally cut the cloth to fit—use the type of package and the distribution method that will do the job.

Redistribution rights

Don't overlook the possibility of acquiring the rights to sell things made by others, whether manufactured in foreign countries or in the United States. It is not necessary to acquire new manufacturing facilities in order to broaden your earning power.

Examples: Some of the better known consumer marketers of aerosol products have these products manufactured by others who have the technical skill and production facilities. A company engaged in the manufacture of plastic products used for industrial glazing reports that a special plastic product is handled on a redistribution arrangement produced a larger margin of profit than did many of its own products.

How to proceed: Use your non-balance-sheet assets, your distribution muscle, your years of goodwill in the trade. Pick the brains of your field sales organization—get the salesmen's new product suggestions. Organize a search program to locate manufacturers in need of your complementary distribution power. But make sure the new product will not interfere with present trade relations and that the salesmen's time devoted to it can be adequately controlled by management. Satisfy yourself about the sales volume potential that will justify the investment.

Franchising operations

Remember that an "old product" to you might be a "new product" to a selling organization with distribution in areas you do not cover. If you have only regional distribution, a franchising arrangement may be profitable.

Examples: A snack food manufacturer offers outlying manufacturers a merchandising package, including machinery for the manufacture of its product and the right to use its brand name and tested marketing programs, in return for a royalty. To increase its revenue, it will also allow use of its machinery for production un-

continued on page 110

seem to be more serious than the "lookers" who swarmed over the landscape a few short months ago. Today's buyers have fairly definite ideas of what they want.

While prices, on an absolute basis, are somewhat lower, they are higher on a times-earnings basis. In many cases the price-earnings ratio today makes it harder for a would-be diversifier to sell his proposal to associates accustomed to judging values by that measure.

Did the recession make a difference in the kind of companies that are likely to be available? What kind of competition can you expect from other diversification-minded buyers?

They want out

Many of the businesses now available are up for sale, as a Chicago consultant observes, because their owners find that they can't, or don't want to, cope with intensified competition.

The businesses themselves may be sound and potentially profitable. A New York investment banker specializing in the purchase and sale of companies reports that today's sellers are often the owners of family firms that have grown from a shoestring to substantial success during the past two or three decades. Now the aging founders are tired and want to sell out because of the lure of retirement, the burden of taxes, or considerations of estate planning. Higher operating costs and narrower margins bring others to the same decision.

And despite the Government's easing of its "tight money" policies, sellers were still citing the difficulty of obtaining needed financing. Apparently, as one Midwest industrialist grimly remarked, not enough bankers in the hinterland read the *Wall Street Journal*.

A Connecticut financier mentions another reason: Slower business has simply given owners more time to think of all the advantages of selling out.

Approach with caution

What is it that makes managements decide to strengthen their companies by acquiring new lines rather than to sell out? Often it is merely the desire to win, plus genuine confidence in their own ability to solve the problems at hand. The management that decides to sell often feels that its problem does not lend itself to easy or early solution.

Diversification from Within:

The Push for New Products

Within the next few years, top management sees new products as one of the surest ways to increase profits. In fact, two-thirds of the company presidents in a recent DR&MI Presidents' Panel survey expected new products, some now only in the research stage, to be their biggest sales boosters in a rich, growing, but currently rather sluggish, buyers' market.

Some of the industrial leaders see opportunities in widening markets overseas, but far more believe that the home market is the best prospective customer for companies that diversify from within with care and imagination.

One company president typically proposes this formula for business success: "Increase emphasis on uncovering consumer wants through market research, coupled with intensified effort to fill those wants with new and improved products, and determine to increase efficiency and lower costs wherever possible in all areas of activity."

More than half the surveyed companies—53 per cent—report putting more money into research this year. And 29 per cent of the group—a cross-section of the largest industrial companies in the United States—are actually investing more heavily in plant equipment today than they were earlier. (In some cases, on the other hand, company programs have been aimed at "simplification through deletion of some products and concentration of sales effort on the more profitable lines.")

Over-all, one conclusion emerges strongly from the thinking of more than 100 industrial presidents: U.S. companies today are now tooling up for tomorrow's prosperity.

But, whatever the individual circumstances, this is the effect of economic conditions you can expect to find when you go acquisition shopping: There are more companies on the counter, but their desirability is questionable. The sound companies seem to be, if anything, more standoffish. Their owners don't think this is the time to get what their businesses are really worth. They are willing to talk if properly approached, but it is tougher work finding good companies—they must be approached with finesse.

While a majority of experts believe that there are somewhat fewer buyers on the market today than there were a year ago, a strong case can be made for the view that the demand for companies—strong companies—is at least as great if not greater.

The buyers reappraise

Those who claim that there are fewer buyers cite a variety of factors: Once-active diversifiers have, in many cases, completed their expansion programs. They feel that, for the time being at least, they have rounded out as much as they want to. (Their thinking may, of course, merely reflect the transition, fairly general throughout the business world, from boom psychology to a more conservative appraisal of the outlook. Factors responsible for a downward revision of capital investment plans have affected all forms of expansion, including acquisition.) And the unhappy consequences of some corporate purchases made during the more frenzied phases of the recent boom have cooled the enthusiasm of other companies that were raring to get started down the diversification trail.

Too, larger companies today are wary of labor trouble, and simply will not respond if the seller has the "wrong" labor union.

The antitrust deterrent

Another factor may be antitrust developments. While the Government has acquiesced in many recent mergers, the wide publicity given to the Bethlehem-Youngstown and a few other proposals has induced some buyers to hold off for fear of getting into difficulties with the Federal Trade Commission or the Department of Justice. This was one reason why a large corporation recently decided against the acquisition of a small, highly successful business offered on most attractive terms. Because it was a supplier of certain raw material used by the smaller company, the corporation considering the purchase feared that one of its competitors might have raised a hue and cry.

In many more cases, however, prospective buyers have become preoccupied with internal problems intensified by the economic downturn and have simply shelved acquisition plans, at least for the present.

But some experts stoutly maintain that there are as many, if not more, buyers on the acquisition market today. "Just as many screwballs," is the

continued on page 107

If you need new production equipment to gain a competitive edge but can't afford to tie up capital, leasing or installment purchase may be the answer. Here's an up-to-date report on these popular financing methods, with the facts that will help you steer clear of the pitfalls.

THIS ALUMINUM *extrusion press, in operation at Fentron Industries, Inc., Seattle, exemplifies production equipment that can be leased today. Lessor: Boothe Leasing Corp.*

How to Modernize on Other People's Money

FAYE HENLE

AFTER A CAREFUL market study, a $2 million paper company decided that its profits could be handsomely increased if it added a line of specialty papers. But to do this it would need a new press at a cost of $500,000, a sum that the company could not raise easily either through a bank loan or with outside financing.

An important Government contract was a possibility for a major office equipment and firearms manufacturer. It could bid on a new U.S. Army rifle and keep its firearms production line rolling for four to five years if it had the proper equipment—machinery costing $1 million. But this represented a major capital expenditure for the company's firearms division.

An enterprising brick manufacturer had a new $1.5 million plant just coming into production. Then company engineers discovered that installation of a certain type of loader would speed delivery of the brick and increase sales beyond original estimates. But it was questionable whether the company could stand the extra expense of the equipment at that time.

Although operating hundreds of miles apart and in vastly different industries, these companies had essentially the same problem. And all three found that the solution was to expand and modernize by using someone else's money through leasing or installment purchase.

In the case of the paper company, a commercial bank was unwilling to grant a loan because it felt that the sum needed was larger than the company could well repay. So the paper manufacturer turned to a commercial leasing corporation, and the bank secured the signatures of both the paper company and the leasing corporation, thus improving security for the $25,000 required.

Easing the budget strain

Had the firearms company bought its $1 million machinery outright, it could have charged off only $500,000 over the term of the contract under current depreciation rulings. And when the contract was completed the company would have been stuck with equipment for which, presumably, it would have no further use. Instead, the company avoided strain on its division's capital equipment budget by leasing the machinery and was able to charge off the cost of the entire $1 million to the specific Government contract. In addition, it was rid of the equipment when the contract terminated.

The brick manufacturer's financial position made outright purchasing impossible, and leasing was not advisable, since the loader was equipment the company definitely wished to own. So it chose an installment purchase plan.

Whatever your business, there is a pretty good chance that at this very moment your competitor is doing two things:

First, for months he has been planning for the better business climate we are now attaining. Perhaps he wants to be the first to launch a certain new product in his industry—or a new service. He wants to broaden

his market. He wants to improve his production methods and so cut costs.

Second, he is spending considerable time and effort deciding how he will finance the new buildings, equipment, or rolling stock he needs. Should he use company funds or someone else's capital? Alert management is aware that there should be no delay in installing any device that will increase profits. If acquisition is postponed, the firm will pay higher prices next year. Meanwhile, it will be losing the savings that would have come from decreased costs.

Growing use of leasing

More and more businesses are operating with capital that is not their own by leasing buildings and equipment or making installment purchases. The present economy stimulates this type of operation, even though the Federal Reserve's hold on credit is looser than it was. Company officials want to conserve cash regardless of the gyrations of the nation's money mart, since dollars borrowed during a long period of inflation can be repaid later on with dollars that are worth less.

The trend may well continue as long as wages and raw materials costs push higher, tax rates are steep, and current depreciation rulings contribute their share to the narrowing of profit margins.

Although leasing is usually more costly than buying, companies in industries as varied as petroleum refining, retail food merchandising, aircraft and parts, chemicals, and drugs, are modernizing and expanding their operations with other people's capital. In addition, this is becoming common practice in such industries as pulp, paper, and allied products, electrical equipment and machinery, rubber products, fabricated metals, lumber and wood products, printing and publishing.

This business of renting rather than buying outright falls into several distinct categories. Most common practice is the renting of machinery and equipment, including electronic calculators and office equipment. Possibly representing far larger amounts of capital is the sale and leaseback of industrial property. Finally, the rental business is booming for all types of transportation equipment, from railroad rolling stock to executive airplanes and fleets of trucks and cars.

Pay as you use

The theory behind all renting is similar, and it is well worth pondering as your company argues the merits of a purchase versus a lease. It is this: When equipment or buildings are purchased, each year's use is prepaid immediately upon ownership. Under leasing, you pay only for the use of an asset while you need it and free capital to be more profitably used in research or development, in expanding inventory, in increasing the number of workers employed, in financing receivables, and in supporting increased sales.

However, the financing cost of a lease could amount to 7 to 10 per cent of the price of the article. Therefore, unless you are certain you will clear a sufficient profit above this, think twice before you lease. While the basic theory of leasing versus purchasing is same for either equipment or land and buildings, the tax treatment is differ-

continued on page 113

Leasing Plans Are Varied

Leasing terms are by no means standardized. Most equipment makers offer a choice of plans, and tailor-made contracts may be available from the leasing specialists. The table below, showing eleven plans found in use by Research Institute of America in a recent survey, indicates the variety of ways in which the total expenditure may be spread over the years:

	Annual Rent Payments as Percentage of Purchase Price										
Yr.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	35*	30	25	36	30	24	18	40	34	28	42
2	25	25*	25	36*	30	24	18	30	24	18	24
3	15	20	25*	18	18*	24	18	18	24	18	18
4	10	10	10	6	12	12*	18	12	12	18	12
5	10	10	10	6	12	12	18*	12	12	18	—
6	10	10	10	6	6	12	6	6	6	18	6
7	10	10	10	6	6	6	6	6	6	6	6
8				6	6	6	6	6	6	6	
9				6	6	6	6	6	6	6	

*Right to terminate at the end of this year or any year thereafter.

Table copyright 1958 by the Research Institute of America, Inc.

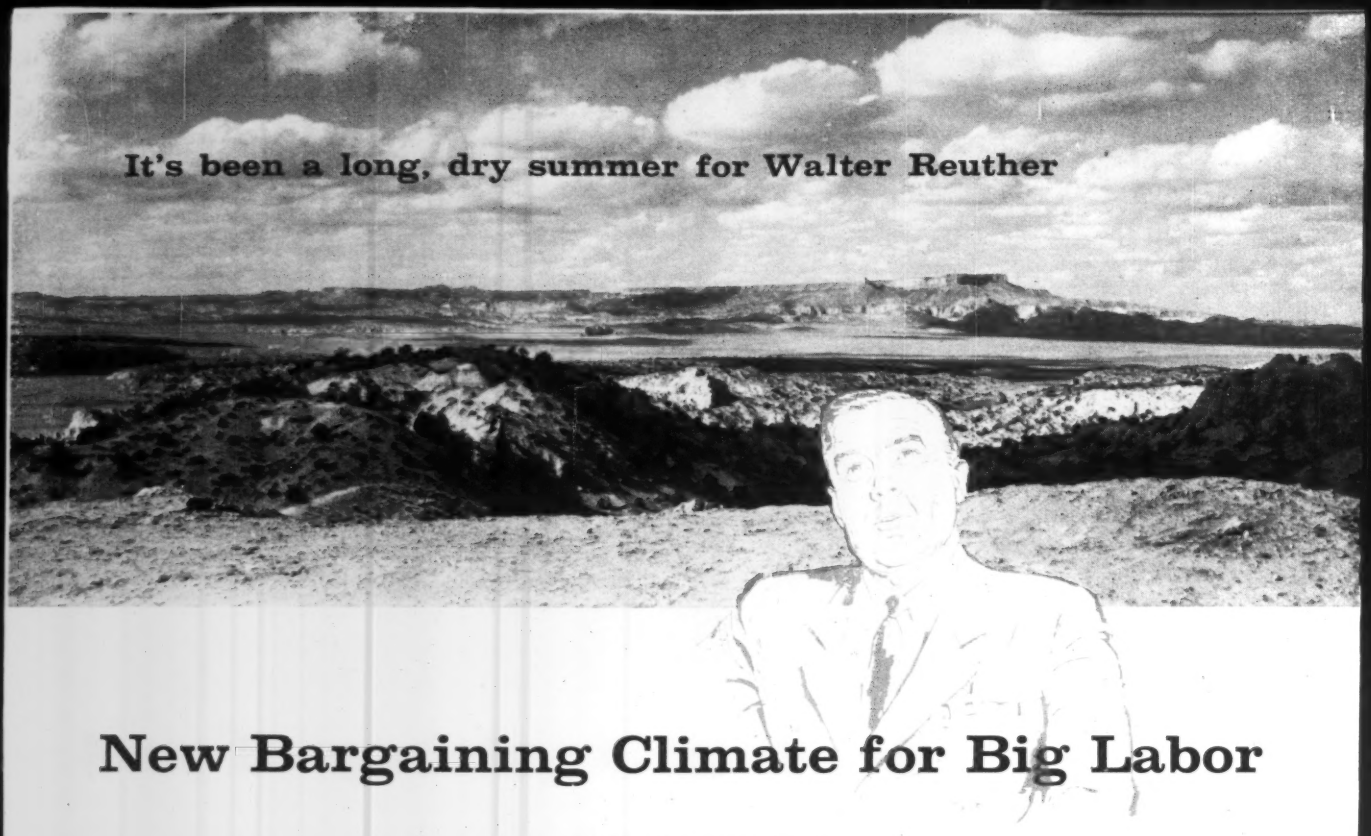
Should You Lease Equipment?

Leasing equipment has become widespread practice in recent years, for the following reasons:

1. It enables a company to acquire new equipment to cut costs, expand facilities, or upgrade and increase output and to conserve its working capital at the same time.
2. The company is not saddled with ownership of equipment that may become obsolescent before it is worn out.
3. No long-term debt appears on the balance sheet. (Some companies believe that the listing of such an item makes raising equity capital more difficult.)
4. Rented equipment is often serviced and maintained by the owners.

Against these advantages, the company must weigh the following factors:

1. The cost is high.
2. There are possible tax pitfalls. If the Internal Revenue Service rules the lease is a conditional sale, the rentals will not be deductible in the year paid. And though leasing is often considered a tax-saving device, usually it only defers the taxes.
3. Leasing provides no tangible asset against which a company may borrow.



New Bargaining Climate for Big Labor

JAMES MENZIES BLACK

Something the union economists hadn't figured on—namely, the 1957-58 recession—put a crimp in the UAW's bargaining strategy. And the auto makers aren't the only employers who can expect to feel some relief.

WALTER REUTHER started his "count-down" early enough. He began talking about 1958 negotiations almost two years ago. And he took aboard plenty of high octane bargaining fuel—the four-day week, higher pensions, more S.U.B., and, finally, profit-sharing.

Somehow he never got into orbit. A resurgent economy put some thrust in his motors, but when at last he signed a three-year contract with Ford in mid-September, its terms weren't within ICBM distance of his original objectives. In fact, he was reduced to describing it as a "statesmanlike, non-inflationary agreement." Economists have already pointed out it is the least inflationary contract that has been negotiated by an automobile company with the UAW since World War II.

There may be some heaving and hauling before agreement is reached between the UAW and other auto makers. There may even be some short-lived work stoppages. But essentially, Ford has written the peace formula in Detroit for the next three years, to the relief of industry, employees, the public—and probably Walter Reuther himself. He has known for some time that 1958 wasn't his year.

All in all, the recession made one fact very clear: Regardless of the negotiating skill of a union's leadership, prosperity is the best "hidden persuader" to secure a concession from management. Nobody likes to shut up shop when he's making money.

Mr. Reuther has himself described collective bargaining as a matter of timing and maneuver. But the recession knocked his timing off, and although the economy seems to be recovering a lot faster than most experts anticipated last Spring, business is still below its 1957 levels. This didn't leave the UAW leader with much room to maneuver.

Events of 1958 have proved one point rather conclusively: UAW economists are no better than anybody else at spotting the shape of things to come. Otherwise, they never would have allowed their head man to talk so fast, so soon about what he aimed to get at the 1958 bargaining table, only to be caught in the tactical error of having his contracts expire with business on the downbeat. For, as every labor leader knows, if you want to win a pocketful of cash and fringes in contract poker, you must have one thing working for you—the economy.

Collective bargaining in the Summer of 1958 took what economists might describe as a saw-toothed movement sidewise. Built-in gimmicks in many major contracts such as the productivity factor and cost-of-living

increases assured a continued, if slowed-down, wage movement upward for a large part of the workforce. Apparently the majority of companies were willing to go along with these provisions despite the lag in the economy. But at the same time, concerns in certain hard-hit industries persuaded their unions to agree to wage cutbacks or the status quo.

No general pattern emerged. No spectacular innovations were introduced into contracts. Bargaining was hard, realistic, and centered on wages, with occasionally a slight strengthening of the fringe benefit clauses.

Recalling all the excitement of previous years—the amazement over the productivity factor, the concern over cost-of-living escalation, the worry over the financial feasibility of pensions and insurance, and the arguments, pro and con, that accompanied the drumbeating build-up for the guaranteed annual wage—1958 may have seemed something of a letdown. But it deserves to be remembered for one remarkable development. It was during the Summer of 1958 that Walter Reuther said, "They can't make us strike!" And that was the greatest reversal of form since Casey broke the heart of Mudville when he went down swinging on a fast one inside.

This was supposed to have been the Summer of Walter Reuther. His were the key contracts. He would write the collective bargaining story for 1958. He would set the pace. His arch-rival, David McDonald of the Steelworkers, tied to a long-term agreement, was out of the picture. So, confidently, the chief of the UAW began his move to the center of the stage. This always had been his strategy. His plan of action: Pick the issues. Begin early. And keep pounding away.

Mr. Reuther's opening lead was the four-day week. This, he announced as early as 1956, was his union's primary, long-term objective. This would be the key demand in 1958 bargaining. It had just the right amount of sensationalism to stir public interest and, for a time, it did just that.

Recession rears its head

But something happened to make a shambles of Reuther's strategy. The economy began to slide. Automobile sales slipped, and slipped again. Unemployment started to climb. Yet prices continued to move upward. The four-day week began to look less and less like an issue to hang your hat on. Mr. Reuther realized this. And, following his precept of timing and maneuver, he suggested quickly that the automobile companies reduce the price of cars. This would put a brake on the cost of living and perk up sales. In return, the UAW would be willing to reduce the cost of its yet unpriced bargaining package.

Obviously, this move got nowhere. Who would trade a solid "quid" for a speculative "quo," payable at some future date? Besides, management had no intention of permitting prices to come within the scope of collective bargaining. But, of course, Mr. Reuther did not expect industry to accept his proposition. It was a double-pronged ploy designed to focus public attention on prices and to show that the UAW was willing to cooperate in a statesmanlike move to bring them down. The trouble was, the maneuver failed to accomplish its purpose. It captured newspaper headlines, all right, but it also got people talking about the causes of high prices. And high wages, or rather, the fact that wages were climbing faster

continued on page 125

Labor Relations Lessons of 1958

A checklist guide to management for bargaining during a profit squeeze.

1. **Take a hard look at each bargaining demand presented to you by your union and consider it in light of what it will mean to your business two, three, or five years hence. Don't permit the practices of other industries to find their way into your contracts unless they are suitable to your operations.**

2. **Expect and be prepared to negotiate on proposals that stress the socio-economic and political ideas of labor leaders who entered the AFL-CIO from the old CIO unions. They push welfare more than wages; in fact, they tie welfare to wages and both to politics. Because they have found bargaining demands can be effective political issues, they frame them accordingly and will continue to do so.**

3. **Examine closely the "make work" clauses in your union agreements. Be sure you know what artificial restrictions in your contract prevent you from securing full operational efficiency. Remember labor union demands may give you the leverage you need to negotiate a competitive agreement, particularly if you understand exactly what you require and price your proposals fairly.**

4. **Be certain you are doing your industrial relations research job. Contemporary collective bargaining is a complex process, and you are negotiating on matters that will affect every aspect of your business on a long-range basis. You can't afford to "guesstimate." Preparing for collective bargaining is a year-round job.**

5. **Train your supervisors to carry out their labor relations assignments. They administer your contract, and their decisions will determine the interpretations of its provisions. See that they have a knowledge of their industrial relations role so their decisions will be the right ones.**

6. **Take the initiative in communications. The modern workforce is more sophisticated than it once was and will be even more sophisticated tomorrow. Employees aren't fooled by propaganda —union or company. Give them the facts on management problems, and make sure they have an advance understanding of issues that you expect might be discussed in collective bargaining. But always keep in mind that the best kind of management communications is low-keyed, factual, objective, and unemotional. In other words, you don't have to attack the union to get your point of view across.**

This metal sample disintegrating in a 20,000° F flame symbolizes the nation's billion-dollar materials development program. Conceived for weaponry, this metal could soon play a role in industry's big high-temperature show. The sun-hot flame, whose temperature can't be measured, but only calculated, is produced by a new Avco electric arc machine.

Operation High Temperature

MELVIN MANDELL, *Industrial Editor*

A STRANGE, 25th-century factory is rising just outside Pittsburgh. When completed, this airtight plant, containing a small rolling mill, a forge, and various machine tools, will be filled with more than 100,000 cubic feet of inert gas. Entering through complicated air locks, the workers will be encased in Buck Rogers-style space suits. Rubber tubes running down from an exhaust port will draw off every trace of water vapor caused by perspiration.

At this futuristic plant, the Universal-Cyclops Steel Company will fabricate molybdenum, a refractory metal that just can't abide oxygen. Before it enters the deadly outside atmosphere, the molybdenum is clad in a protective coating. Final price: $150 a pound.

The Navy actually is footing the bill, since private industry could hardly justify such a facility. Yet some pure molybdenum already is finding work in industry—as the platinum-coated electrodes in glass-melting furnaces.

This space-age mill is part of an all-out effort to produce new high-temperature materials needed to continue our technical advances on several fronts. Missile requirements have provided the major impetus. But industry, not the military, will be the big market for the latest refractory materials, which generally find civilian jobs within a year or two.

In industry, the great stimulus to improvement of the high-temperature performance of materials is the fact that the capacity and efficiency of power plants and electric motors increase with operating temperature. For example, the highest temperature in industrial gas turbines is 1,500° F, up 100° over five years ago (and it should rise another 125° in the next five years). Each 50° rise means about 6 per cent more output, plus lower fuel costs per horsepower.

Similarly, tougher and tougher hi-temp metals in steam turbines help keep down the cost of generating electricity in the nation's power utilities and in thousands of other electric plants.

Moreover, there are many other economic reasons to whet industry's appetite for new refractory materials:

- The higher speeds of equipment—consumer as well as industrial—call for materials better able to withstand heat generated by friction.
- To produce certain new materials, such as synthetic diamonds, immense pressures, combined with temperatures as high as 5,100° F, are needed. Many chemicals can be produced eco-

nomically, if at all, only in high-pressure, high-temperature reactors.

- To enable nuclear power to gain economic standing, many critical material problems must be solved. Nuclear reactors are also under study as processing equipment. Raw chemicals or petroleum would be run right through the core in pipes that must stand up to high heat, nuclear bombardment, and corrosive chemicals, simultaneously. Lockheed is already working on reactors to produce heat for processing.
- Many scientists say large-scale direct conversion of heat (possibly atomically produced) into electricity, without intermediate rotating machinery, is more than a dream (see page 103).

For manufacturing companies hoping to share in the multi-billion-dollar equipment markets represented by these developments, continuous and admittedly costly involvement in high-temperature technology is essential. Generally, this involves learning how to specify and use the new materials. But some manufacturers, unable to find a source of desired refractory materials, actually have gone into the business of developing new metals or ceramics.

Why buyers are shy

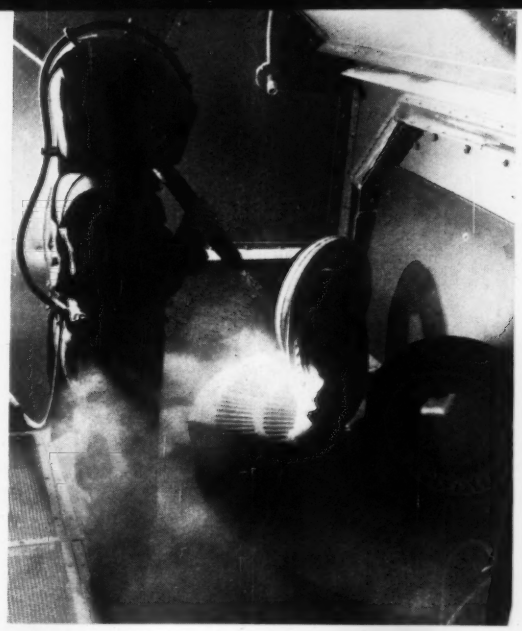
In many markets, however, the apparent enthusiasm over high-temperature research is not matched by actual buying of equipment and materials. Despite all the drum-beating, realistic market research is still essential.

Take the case of one outfit urged by its customers to develop a new high-temperature, inorganic coating for copper coils. After spending $50,000 developing the new coating, the company couldn't find a single volume customer willing to spend a few cents more for the improved product. Only defense contractors seem willing to assume the added costs.

The new refractory materials are more costly for a number of reasons:

- The metal ores are more difficult or expensive to process, although they are usually abundant.
- Some must be purified or worked under vacuum or in inert atmospheres.
- Cutting tools have to be redesigned.
- Intensive, costly testing is needed because of the speed with which these materials are applied. Designers just can't wait for feedback from the field.

continued on page 132



MAN FROM MARS: *Ceramic coatings are one answer to protecting metals at high temperatures. This man in a diver's suit is cleaning jet engine parts at Bettinger Corp., Waltham, Mass., with a blast of sand before the coating slip is sprayed on.*

RESISTS THERMAL SHOCK: *This new Carborundum firebrick can be plunged into ice water while red hot without cracking. Resistance to sudden cooling or heating means that an annealing oven or blast furnace can be put to work in hours instead of days.*

LOOK, NO CRUCIBLE: *Some of the exotic metals are processed at such extreme temperatures that no crucible can be found to contain them. The solution at Westinghouse Research Labs is levitation heating, floating the ball in space by magnetic force in a vacuum.*

Industry Tightens Up on Executive Expense Accounts

ART ZUCKERMAN

Dual pressure—from tougher competition and the tax collector—is leading companies to take a critical look at their executives' expense accounts. Many have already decided that greater austerity is in order.

LOUD GROANS from business men already overburdened by tax accounting requirements greeted the recent tightening of Internal Revenue regulations on expense account spending. The reaction was natural enough—the last thing most business men have ever asked for is more stringent interpretation of the Federal tax laws.

Nevertheless, some companies are beginning to find that they can profit, if only in a backhanded way, from certain rather pugnacious pronouncements by the tax authorities. For these statements, coupled with pressures generated by the recession, have forced them to make a long overdue reappraisal of their expense account practices.

Treasury Department officials estimate that business concerns have paid out some $5 billion a year for the travel and entertainment expenses of their employees. It's become a truism that most of the tonier, higher-priced cafes owe their very existence to the expense account. According to some estimates, business expense money pays for as many as four out of ten tickets for legitimate stage shows in New York.

A fringe on top

Corporation attitudes toward such expenses vary widely. Many regard them simply as a necessary cost of getting business and one to be watched with extreme care. Others see in them a first-rate fringe benefit for hard-working executives—a reward that, unlike salary increases, cannot be taxed.

The Federal Government is not inclined to be overly enthusiastic about the fringe benefit theory of expense account largesse. As far as Uncle Sam is concerned, the validity of a business expense depends on whether or not it forwards business interests. Generous expense accounts designed primarily to "improve executive morale" could, conceivably, further business interests, but the Government doesn't think so.

Uncle Sam kicked up his biggest recent furor in the business community toward the end of last year. That was when his revenue agents ruled an employee must report as income any money given him for expenses, and

Who Does the Spending?

Who is most likely to spread expense money around? Following are various executive and professional groups listed in order of their spending proclivities:

Biggest Spenders

Public relations men
Television executives
Advertising executives

Medium-Heavy Spenders

Manufacturers' sales representatives
Brokers
Motion picture executives
Advertising space salesmen
Literary and theatrical agents

Light Spenders

Engineers
Physicians
Educators

Source: The Diners' Club

then put down his actual expenses as deductions.

This ruling was only the culmination of a steadily increasing "get tough" policy. As early as the Summer of 1957, Russell C. Harrington, then Commissioner of Internal Revenue, ordered his field agents to take a close look at such business expenses as hunting trips, use of resort hotels, attendance at out-of-town sports events, and allowances to executives temporarily transferred to branch offices in resort cities. Scrutiny was also extended to such items as company-paid club dues, maintenance of automobiles, yachts, and airplanes, and to travel and entertainment expenses generally.

Is this safari necessary?

Then, as now, a taxpayer could defend any of these expenses successfully by proving that they actually promoted business. A classic case in point is that of a dairy company president and his wife who spent $17,000 on an African safari and managed to have it allowed as a business deduction. They were able to prove that publicity resulting from their jungle junket made business boom down at the dairy.

When the Internal Revenue Service backtracked last March and required only the declaration of expense money received on a flat-allowance basis, it was to some extent restoring the status quo. Keeping flat allowances in the tax-free category had been difficult even earlier.

For example, in June of 1957 a gentleman named W. Horace Williams had an evil day in tax court. President of a company bearing his name, Mr. Williams had been drawing a $42,000 annual salary plus an additional $500 a month to cover expenses. His firm did not require him to account for the outlay of that extra $500, and he hadn't bothered keeping personal records. The Fifth Circuit Court made him wish he had. It declined to allow as much as a single cent as a business deduction.

Holding the purse strings

Actually, even at the height of the business boom, such flat-payment expense allowances were employed by only seven companies in 100, according to a study by The Dartnell Corporation. More than half the firms surveyed handled all expenses by reimbursing employees, while more than a third also allowed their employees to have the company billed directly for some items.

When the smoke had cleared from the tax-deduction furor, one fact stood out: from now on, anyone—corporation or individual, employee—who reports business deductions would be well advised to document them and particularly well advised to prove a resultant benefit to the company.

In many instances, however, the business community may have beaten the Government to the punch. Increasing competition, rising costs, and declining markets have forced industry to take a new look at all its cost factors. For a good many companies, the expense accounts have seemed as good a place as any to begin.

"Our recession started over two years ago," says one fair-size manufacturer. "We have made special efforts to reduce all types of expenditures at all levels."

This concern was one of nearly 100 that responded to a DR&MI survey of current expense account practices. The companies surveyed are engaged in activities ranging from mining to brewing, from publishing to the manufacture of such items as aircraft, office equipment, food products, machine tools, home-entertainment products, and photographic supplies. They employ from 250 to over 75,000 persons.

A substantial number—in fact, nearly half of those participating in the survey—are doing something about expense account charges. They are looking for ways to reduce these

continued on page 96

Expense Account Policies: What Companies Are Doing

Just what portion of the nearly 100 companies responding to DR&MI's survey are doing what about expense account costs is shown here in statistical form. Figures are rounded off to the nearest percent.

Of all firms responding:

14% are increasing use of credit and direct-billing plans
1% are dropping nonaccountable, flat-payment allowances
45% are trying to reduce expense account costs

Of the firms that are trying to reduce expense account costs:

49% are tightening up expense reporting procedures
16% are cutting entertainment costs
11% are economizing on individual trips
32% are reducing amount of travel, attendance at business functions
14% are able to compute the percentage of savings achieved
70% are expecting to continue present controls when business improves

The New Welfare and Pension Law:

What Employers Need to Know

Congress has handed industry a big new paperwork job: filing detailed annual reports of employee benefit funds.

ALTHOUGH CONGRESS finally went home in August without passing labor reform legislation, the lawmakers did put through a major bill in a closely related area—pension and welfare administration. And the new law is going to saddle employers with some pretty heavy new paperwork.

Companies have until January 1, the law's effective date, to familiarize themselves with its provisions and gear their accounting operations accordingly.

The Welfare and Pension Plans Disclosure Act contains important new requirements for companies operating practically any type of employee benefit program. Although the legislation arose out of revelations of corruption and lax administration in union-management welfare funds, *the new law covers plans set up and operated unilaterally by employers as well.*

Under the legislation, which was signed into law by President Eisenhower after Congress adjourned, the administrator of an employee pension or welfare plan must file a complete description of the program and detailed annual reports with the Secretary of Labor and furnish copies of everything to employees upon request.

Anguished expletives over the new batch of red tape characterized much of the management reaction when the bill cleared Congress. However, other management people are not alarmed. Some feel it is a good practice to report all pertinent data on their benefit operations to their employees and have no particular objection to turning the information over to the Government. Still, there is a general feeling that an inordinate amount of detail is required—and that, in any event, inundating Washington with more reports is not the way to root out corruption.

The Act is the product of five years

continued on page 112

The Law Provides . . .

COVERAGE An employee benefit plan (pension or welfare) under interstate commerce jurisdiction is covered if it is "communicated to or its benefits described in writing to the employees" and it is established by an employer, by a union, or by both to provide, through the purchase of insurance or otherwise, medical, surgical, or hospital benefits or care, or benefits in the event of sickness, accident, disability, death, unemployment, or retirement, including any profit-sharing plan which furnishes benefits on or after retirement.

Note that the law covers informal, unfunded programs, as well as more formally organized funds.

EXEMPTIONS Plans covering 25 or fewer employees and plans maintained solely to comply with workmen's compensation, disability benefit, or unemployment insurance laws are not covered.

REPORTS Within 90 days after January 1, 1959, administrators must file two copies of detailed descriptions of their programs with the Secretary of Labor. Among other things, these descriptions must include the schedule of benefits, the names, titles, and addresses of plan trustees, and copies of any related union contract, trust agreement, or similar document, and they must cover also the source of financing, the remedies available to employees whose claims are denied, and much other detailed data.

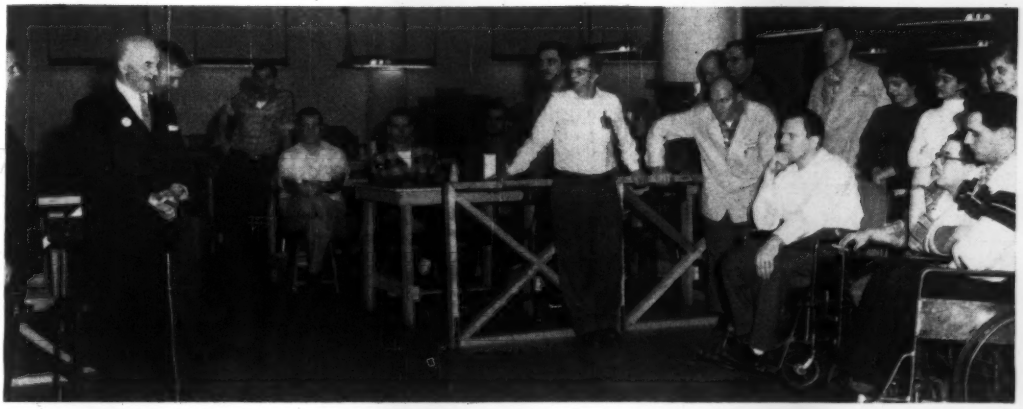
Within 120 days after the end of each calendar or fiscal year on which the plan operates, the administrator must file two copies of a report on the plan's operations with the Secretary of Labor. Among the data to be set forth are: the amount of employer and employee contributions, the benefits paid, an account of assets, liabilities, receipts, and disbursements. There must be a detailed statement of the fees, salaries, and commissions charged to the plan and "to whom paid, in what amount, and for what purpose."

Where welfare benefits are provided through an insurance carrier, full information must be given on premiums collected, claims paid, retroactive rate adjustments, service fees, brokerage arrangement, and other matters. Unfunded plans need furnish data only on total benefits paid and the number of employees involved. Special reporting requirements are spelled out for pension plans, and different types of data must be supplied for insured and trusteed programs.

The Secretary of Labor is directed to prepare forms for the plan descriptions and annual reports for use in filing these documents. (However, the House conferees on the bill specifically reported that use of the forms is not mandatory.)

DISCLOSURE TO EMPLOYEES Administrators must make copies of all materials contained in the plan descriptions and annual reports available for inspection by employee beneficiaries. In addition, the administrator must mail the plan description and all related materials and a summary of the annual report to any employee requesting them. All data filed with the Secretary of Labor are open to inspection in the public document room of the Labor Department.

ENFORCEMENT Persons willfully violating the reporting or disclosure agreements of the law are subject to fines or imprisonment. Administrators who do not provide employees with reports they request within 30 days may be assessed $50 a day for their neglect to do so.



GENERAL MELVIN J. MAAS, *chairman of the President's Committee on Employment of the Physically Handicapped, commends Ace Electronics Associates, Inc., whose workforce is 75 per cent handicapped. Ace's business is booming.*

How to Profit While Doing Good

A MODEST electronics concern in Somerville, Mass., which started with $6,000 sales in 1953, has proved that it is quite possible to do well while you are doing good. With a payroll of 125 persons, 75 per cent of whom are handicapped, Ace Electronics Associates, Inc., manufacturers of sub-miniature potentiometers and trimmers for some of the nation's largest aircraft, missile, and electronics companies, did $1 million worth of business last year. In 1958, its sales are expected to increase to an estimated $2 million worth.

Not only the company but the community has prospered from the hiring of the handicapped. Twenty-five of the employees had never been able to get jobs before. It used to cost the community $35,000 a year to maintain them. Today, they earn $78,000 in wages and produce three times that amount of wealth to pour into the nation's total product. In terms of personal pride and happiness, benefits to the company and its president, Aaron N. Solomon, as well as to the disabled themselves, cannot be estimated in dollars and cents.

Ace Electronics Associates has never had an industrial accident, and its absenteeism record has been phenomenally low.

As for accidents, Solomon says his employees, and especially the handicapped, are unusually careful. "If I'm in a hurry, I may trip over a wastebasket as I rush out of a room," Solomon says, "but a disabled person never takes chances." Hiring the handicapped without a rigorous program of task evaluation and personnel selection and placement is bad business, he believes.

Every job to be carried out at Ace was performed before selection interviews were arranged. The exact physical, intellectual, and personality requirements of each operation were written up on a job description sheet. Then placement techniques were worked out to match the tested abilities of job applicants to the requirements of the jobs.

Disabilities were considered only

continued on page 131

AARON N. SOLOMON, *Ace president, looks on* (left) *as Charles Cyr, graded high on hand-eye skills, performs precision work. State Rehabilitation Commission gave Cyr lifting device to get into his auto, motorized wheelchair to get about plant.* Center: *Punch-in time for Robert S. Matla, paraplegic, and John R. Madden, bilateral amputee, both coming to jobs for which they have been pre-tested.* Right: *Henry Yanoff, a cerebral palsy victim who is canteen manager, serves Richard Cripps, a double amputee.*

14 Important Ratios in 12 Retail Lines

Compiled annually under the direction of Roy A. Foulke, Vice President of Dun & Bradstreet, Inc., the Fourteen Important Ratios offer a useful, though by no means absolute, yardstick for financial self-appraisal by management. The Ratios for wholesalers and manufacturers will appear in November and December, respectively.

Line of Business (and Number of businesses reporting)	Current assets to current debt	Net profits on net sales	Net profits on tangible net worth	Net profits on net working capital	Net sales to tangible net worth	Net sales to net working capital	Collection period	Net sales to inventory	Fixed assets to tangible net worth	Current debt to tangible net worth	Total debt to tangible net worth	Inventory to net working capital	Current debt to inventory	Funded debts to net working capital
	Times	Per cent	Per cent	Per cent	Times	Times	Days	Times	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
FOR 12 RETAIL LINES—1957 MEDIANS AND QUARTILES														
Clothing, Men's and Boys' (162)	**2.88**	**2.07**	**3.78**	**4.92**	**2.54**	**3.14**	**	**3.3**	**14.0**	**41.6**	**98.9**	**97.1**	**55.2**	**36.5**
Clothing, Men's and Women's (91)	**3.62**	**4.06**	**8.96**	**11.94**	**2.33**	**2.98**	**	**3.5**	**17.0**	**25.4**	**52.3**	**67.3**	**55.2**	**23.2**
Department Stores (447)	**3.57**	**1.83**	**5.05**	**6.98**	**2.83**	**3.95**	**	**5.7**	**25.0**	**27.4**	**61.5**	**67.1**	**59.2**	**32.7**
Dry Goods (77)	**5.17**	**3.53**	**8.81**	**10.55**	**2.46**	**3.08**	**	**3.8**	**15.4**	**17.5**	**58.3**	**81.8**	**32.9**	**25.6**
Furnishings, Men's (43)	**2.68**	**3.03**	**4.64**	**6.58**	**1.94**	**2.44**	**	**3.0**	**13.2**	**30.2**	**101.3**	**95.8**	**48.5**	**32.0**
Furniture, 50 per cent or more, installment (147)	**3.46**	**1.49**	**4.37**	**4.44**	**2.03**	**2.38**	**153**	**4.9**	**14.2**	**37.7**	**81.9**	**42.6**	**93.9**	**23.2**
Groceries and Meats, Chain (53)	**1.71**	**1.40**	**14.42**	**26.41**	**11.18**	**18.42**	**	**14.1**	**66.1**	**58.7**	**96.9**	**155.1**	**82.6**	**53.1**
Groceries and Meats, Independent (48)	**1.79**	**1.01**	**12.66**	**22.78**	**9.89**	**18.73**	**	**17.5**	**51.4**	**46.5**	**96.8**	**132.8**	**85.3**	**60.2**
Hardware (42)	**3.35**	**1.12**	**3.27**	**5.51**	**2.48**	**4.00**	**	**3.2**	**19.6**	**28.9**	**77.0**	**83.4**	**49.6**	**32.6**
Lumber and Building Materials (130)	**4.21**	**1.66**	**4.80**	**6.26**	**2.47**	**3.35**	**67**	**5.5**	**25.1**	**25.4**	**71.7**	**66.3**	**56.6**	**25.2**
Shoes (80)	**2.70**	**2.44**	**7.75**	**11.32**	**3.48**	**5.01**	**	**3.9**	**15.2**	**38.9**	**66.1**	**117.9**	**47.7**	**21.1**
Women's Specialty Shops (203)	**2.52**	**1.90**	**6.12**	**10.20**	**3.29**	**4.92**	**	**6.6**	**22.3**	**46.9**	**85.6**	**68.2**	**100.9**	**32.0**
DEPARTMENT STORES—BY SIZE (TANGIBLE NET WORTH) CLASSES—MEDIANS ONLY														
1957 Under $200,000	**4.59**	**1.50**	**3.99**	**5.17**	**2.95**	**3.94**	**	**4.2**	**20.5**	**21.5**	**70.7**	**78.1**	**38.4**	**36.9**
1957 $200,000–$500,000	**3.53**	**1.62**	**4.74**	**6.38**	**2.85**	**3.62**	**	**5.3**	**22.6**	**28.7**	**64.6**	**71.3**	**58.7**	**32.6**
1957 Over $500,000	**3.35**	**2.16**	**5.69**	**9.18**	**2.64**	**4.11**	**	**7.5**	**29.7**	**29.3**	**54.8**	**57.9**	**70.2**	**27.3**

**Not computed; necessary information as to the division between cash sales and credit sales was available in too few cases to obtain an average collection period usable as a broad guide. †Loss.

DEFINITIONS OF TERMS

THE RATIOS—The data used are based upon a representative sampling with a tangible net worth which only occasionally is below $50,000. . . . The center figure for each of the twelve lines is the median. The other two figures in each line are quartiles; for each ratio they indicate the upper and lower limits of the experiences of that half of the concerns whose ratios are nearest to the median. When any figures are listed in order according to their size, the median is the middle figure (same number of items from the top and the bottom) and the quartiles are the figures that are located one-quarter and three-quarters down the list.

COLLECTION PERIOD—The number of days that the total of trade accounts and notes receivable (including assigned accounts and discounted notes, if any) less reserves for bad debts, represents when compared with the annual net credit sales. Formula—divide the annual net credit sales by 365 days to obtain the average credit sales per day. Then divide the total of accounts and notes receivable (plus any discounted notes receivable) by the average credit sales per day to obtain the average collection period.

CURRENT ASSETS—Total of cash, accounts and notes receivable for the sales of merchandise in regular trade quarters less any reserves for bad debts, advances on merchandise, inventory less any reserves, listed securities when not in excess of market. State and municipal bonds not in excess of market, and United States Government securities.

CURRENT DEBT—Total of all liabilities due within one year from statement date including current payments on serial notes, mortgages, debentures, or other funded debts. This item also includes current reserves such as gross reserves for Federal income and excess profit taxes, reserves for contingencies set up for specific purposes, but does not include reserves for depreciation.

FIXED ASSETS—The sum of the cost value of land and the depreciated book values of buildings, leasehold improvements, fixtures, furniture, machinery, tools, and equipment.

FUNDED DEBT—Mortgages, bonds, debentures, gold notes, serial notes, or other obligations with maturity of more than one year from the statement date.

INVENTORY—The sum of raw material, material in process, and finished merchandise. It does not include supplies.

NET PROFITS—Profit after full depreciation on buildings, machinery, equipment, furniture, and other assets of a fixed nature; after reserves for Federal income and excess profit taxes; after reduction in the value of inventory to cost or market, whichever is lower, after charge-offs for bad debts; after miscellaneous reserves and adjustments; but before dividends or withdrawals.

NET SALES—The dollar volume of business transacted for 365 days net after deductions for returns, allowances, and discounts from gross sales.

NET SALES TO INVENTORY—The quotient obtained by dividing the annual net sales by the statement inventory. This quotient does not represent the actual physical turnover, which would be determined by reducing the annual net sales to the cost of goods sold, and then dividing the resulting figure by the statement inventory.

NET WORKING CAPITAL—The excess of the current assets over the current debt.

TANGIBLE NET WORTH—The sum of all outstanding preferred or preference stocks (if any) and outstanding common stocks, surplus, and undivided profits, less any intangible items in the assets, such as good-will, trademarks, patents, copyrights, leaseholds, mailing list, treasury stock, organization expenses, and underwriting discounts and expenses.

TURNOVER OF TANGIBLE NET WORTH—The quotient obtained by dividing annual net sales by tangible net worth.

TURNOVER OF NET WORKING CAPITAL—The quotient obtained by dividing annual net sales by net working capital.

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Unique one-key simplicity!

No tapes, belts, buzzers or warm-ups. Just press one key and talk. The fully transistorized Key-Noter does the rest automatically!

Goes everywhere!

Use the 5⅝ lb. Key-Noter at your desk, at meetings, conferences, interviews. Records everything—from a note to a novel!

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The Key-Noter converts instantly to a full-control transcriber . . . gives you two machines for the price of one. Available with Automatic Precision Indexing.

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You are looking at the smartest thing that ever happened to instrument dictation . . . the smallest, lightest, easiest-to-use disc dictator ever made! Not just a voice recorder but a full-fledged dictating machine. It's another reason Gray Advanced Design dictating systems are winning preference today. It offers features not yet in machines twice the size and half again the price! It's so tiny it tucks into a briefcase . . . so rugged it takes the toughest daily desk use . . . so simple your seven-year-old can use it. Get all the facts. Send coupon now!

D-3

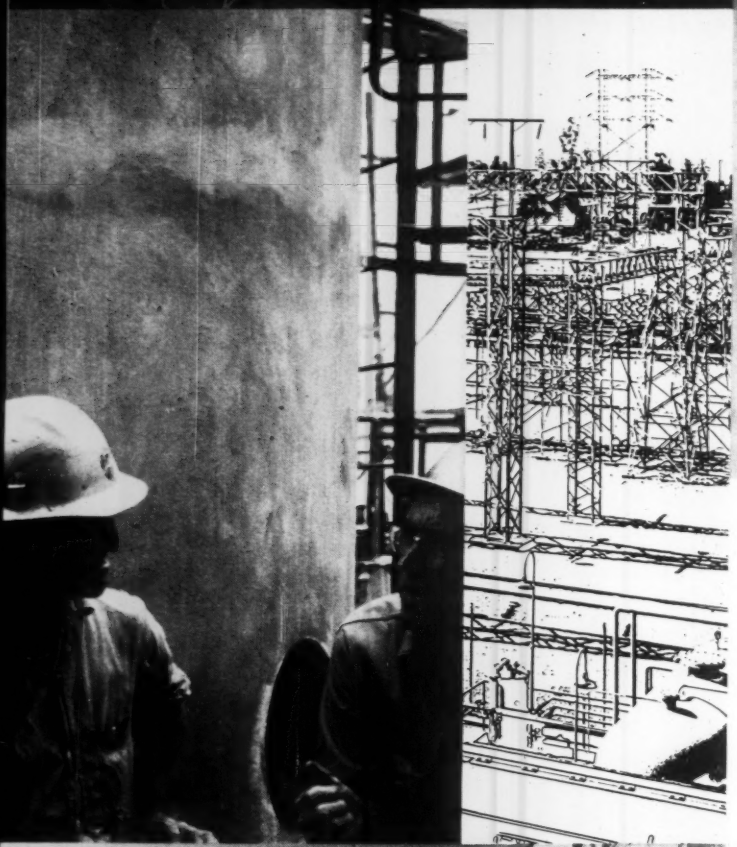
GRAY MANUFACTURING COMPANY, HARTFORD 1, CONN.

Yes! Please send me illustrated color booklet on new Gray Key-Noter.

Name_____ Company_____

Address_____

City_____ Zone_____ State_____



WHEN you consider expansion . . .
. . . the most important
investment you can make is in
the creative ability of men.

FLUOR

The Fluor Corporation, Ltd.
Engineers & Constructors
2500 S. Atlantic Blvd., Los Angeles

Getting the Most from Your Advertising Dollars

An 8-Part Special Feature

Prepared under the direction of **ELDRIDGE PETERSON**

PROBABLY THE first advertising man in America was the Dutchman Jacob Steendam, who around 1650 wrote an advertisement in rhyme celebrating the beauties of Manhattan real estate. His client, the Dutch West Indies Company, was competing for colonists with the Dutch East Indies Company, who held out the lure of the Spice Island of the Far East. Steendam wrote good copy for New Amsterdam, and his appeal evidently met with a lively response in Holland.

Advertising is the extended voice of an individual with something to sell or tell, and to some degree its success depends upon the skill of his agent in amplifying the message and enlarging the audience. A full measure of success, however, is achieved only through the coordinated effort of client and agent, and a mutual understanding of obligations and responsibilities.

Prosperity depends on consumption. Once the goods have left the loading platform, the rigid patterns of production must give way to the less predictable patterns of human behavior. Here is where cost factors elude

IN THIS SECTION

Why Management Is Reappraising Advertising ELDRIDGE PETERSON..... 49
Pre-selling by imaginative, convincing, accurately targeted advertising is the pivot of today's successful marketing.

Marketing Is Management's Job GEORGE FROST..... 50
Better profits are the result when client and agency pull together—as they do at Cannon Mills.

How to Pick an Advertising Agency
Changing agencies is costly, and management may be in for a disappointment if it doesn't move with care.
Finding the Agency That Fits Your Needs ROBERT E. LUSK..... 52
When It's Time for a Change JOHN ORR YOUNG..... 53

How Many Dollars for Advertising?
Despite the many intangibles involved, there are sound, hard-headed ways to build a rational advertising budget.
Budgeting Your Advertising for Profit FRANK W. MANSFIELD..... 54
Setting the Budget for Industrial Products JOSEPH E. BACHELDER.... 55

Client-Agency Teamwork: Key to Successful Advertising
Two perspectives on partnership—the formal arrangements, the problem areas, the rewards of teamwork.
It's Mutual Confidence That Counts WILLIAM A. MARSTELLER..... 56
Building a Productive Partnership ROBERT M. GRAY..... 57

Madison Avenue, U.S.A.

the engineering mind, and where the psychological moves ahead of the statistical. Men may be predictable over the long term, but it is the public's short-term whim and impulse that makes advertising a fascinating and tantalizing adventure. If consumption rather than production is the proper gage of successful distribution, then "going to market" begins with a knowledge of the audience and the acceptance of a product at the point of sale.

In the feature which follows, DR&MI examines the relationship between client and agency from various functional aspects and from opposite sides of the corral. Out of a lifetime of experience Eldridge Peterson, former editor and publisher of *Printer's Ink*, considers the present effectiveness of advertising as a business tool. Then he presents an array of experts and specialists covering such topics as the selection of an agency, the client-agency relationship, the advertising budget, the division of client and agency responsibility, and the evaluation and improvement of advertising effectiveness. Especially in the give and take over client-agency relationships, differing opinions are expressed, but the differences are in degree rather than in principle.

While there is a broad pattern of traditional practices, there are no inflexible rules covering the agency scope or compensation. The professional is hired to render a skilled service from which the company, the agency, and the consumer all benefit. Not all projects or products are successful, but failure should never result from lack of understanding of the individual assignment. When a campaign is considered a success, the measure of credit can overflow without creating hardship.

The advertising profession can never permit the technique to become more important than the function, or the histrionic to overshadow the ethical. Advertising lives in a glass house and is exposed to critical brickbats which are not always aimed or thrown with precision.

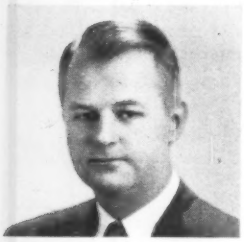
Against these attacks there is no coat of mail so resistant as the mesh of truth and fact. Professional indignation against criticism is never an answer to a half truth or big lie. In advertising, the sins of the few cast an unwarranted shadow on the many who handle their assignments with conscience as well as skill. Many a successful business leans heavily upon the ingenuity, resourcefulness, and imagination of its advertising aides, internal as well as external.

The public is indebted to the men and women in advertising who have the instinct for creative leadership—a fact that is imbedded in the heart and mind of every person who beats a drum in the marketplace. —A.M.S.

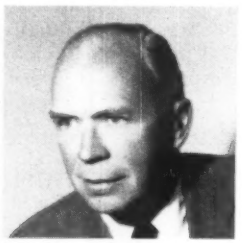
ELDRIDGE PETERSON

Coordinator of the special panel of experts who have compiled this guide to more effective spending of the advertising dollar is Eldridge Peterson, a veteran Madison Avenue editor and publisher who resigned this year as publisher of *Printers' Ink*, a leading advertising magazine, to become an advertising consultant. Under his direction, this team of top-ranking research experts, advertising managers, consultants, and agency heads has come up with a comprehensive blueprint for budgeting, research, client-agency relationships and responsibilities, and evaluation of advertising's effectiveness.

The Men Behind the Bylines



GEORGE A. FROST, *Cannon Mills, Inc., vice president, joined the company in 1949 and moved up through sales, sales promotion, and advertising.*



ROBERT E. LUSK, *president Benton & Bowles, Inc., joined that agency in 1933 after ten years as an advertising manager and copywriter.*

JOHN ORR YOUNG, *co-founder of Young & Rubicam, is now an advertising consultant, active in agency selection and in many recent mergers.*

FRANK W. MANSFIELD, *Sylvania's market research head, chairs the advertising research steering committee of the Association of National Advertisers.*

DR. JOSEPH E. BACHELDER, *a sociologist and communications research expert, now is director of the Industrial Advertising Research Institute.*

WILLIAM A. MARSTELLER, *ex-newspaperman and company advertising executive, heads Marsteller Research, Inc., and Marsteller, Rickard, Gebhardt & Reed, Inc.*

ROBERT M. GRAY, *Esso's top advertising man, is also director of the Advertising Federation of America and is a past director of the Advertising Council.*

FINISHING TOUCH: *Advertising manager goes over campaign with two agency executives.*
Photo courtesy of Anderson & Cairns, Inc.

Marketing-minded management is fast learning that you don't take advertising for granted any more—not if you want to stay competitive. As one of industry's key selling tools, it's winning a top spot on the marketing team.

Why Management Is Reappraising Advertising

ELDRIDGE PETERSON

WHICH COMES FIRST, the product or the desire for it? Time was when a company's top production man could say: "Here's what we plan to make. Now you salesmen go out and sell it." Today, enlightened management listens when marketing executives say: "Here's what we can sell—these designs and these colors, in these quantities. Now make it." Increasingly, what a company produces is being determined by what the marketing executives say customers will buy.

That, in essence, is the meaning of the phrase "marketing concept," which is heard up and down Madison Avenue these days. There are, however, differences in interpretation. A Kraft Foods executive once said that in his organization the phrase means that marketing is a state of mind prevalent throughout the company—that is, every function, from product development on, is judged in the light of the ultimate sales goal. Other companies consider that they have adopted the marketing concept when they have integrated all the marketing functions—sales, advertising, sales promotion, market research, and so on—and produced a coordinated program.

This shift in emphasis from production to marketing has focused a strong spotlight on advertising, advertising managers, and advertising agencies. In many companies the solution of the marketing problem lies mainly in the use of advertising.

For example, the manufacturer of a consumer product may find that his major marketing challenge is to presell the customer—so that when she stands before a supermarket display of many different brands, she will reach out for his product and put it in her shopping cart. Package design may play an important part in her choice, but the major part of the job must be done in advance—by advertising.

For a manufacturer of heavy goods, the amount of time the salesman needs to present the sales story to a purchasing agent or a group of industrial buyers may be a highly important part of the sales problem. Advertising can cut down that time by convincing the customers of the company's standing in advance.

Nation of consumers

How important advertising assignments have become in recent years is proved by the growth of advertising investment in this country. According to *Printers' Ink*, it rose from around $2.9 billion in 1945 to an estimated $10 billion for 1958. It is this tremendous expenditure on advertising and the concentration of management thinking on marketing that have enabled this country to sell the enormous output of goods and services it must dispose of if U.S. business is to survive and to expand.

Fortunately the traditions of our economy and past educational efforts have created public willingness to cooperate with business in its efforts to market its goods. Psychiatrist Erich Fromm says, perhaps critically, but correctly: "We are a society of consumers. I think if you would ask people what their concept of Heaven is, they would say it is a big department store with new things every week, all the money to buy them, and maybe a little more than their neighbor."

Predisposed as consumers are toward buying, they nevertheless must be wooed. The success of our economic system is not automatic, as the recession has shown. And, fortunately, many companies—even though they are headed by men who have come up through production, finance, or law—now recognize the supreme importance of marketing in business survival.

Nevertheless, there is one marketing area that is clouded with misunderstanding, sometimes with frustration: advertising.

Here are a few simple statements of fact about what advertising can do, and what it can't do that may help to clear the air. Basically, though with some oversimplification, advertising *can:*

- Build a brand name that will create

continued on page 58

Just where does advertising fit into the marketing program? What is the agency's proper role—and how much responsibility for the over-all marketing plan should it bear? A veteran advertising manager offers his answers.

TEAM PLAY: *Motivation study takes shape as agency research head consults client.*
Photo courtesy of Albert Frank-Guenther Law, Inc.

Marketing Is Management's Job

GEORGE FROST, *Vice President, Cannon Mills, Inc.*

MANY PEOPLE today speak of the "marketing concept" as something new that has changed agency-client relationships. But the marketing concept is not new. It is just an evolutionary step in a continuous effort for more efficient distribution.

Basically, adoption of the marketing concept means only a change in perspective, a keener awareness of consumer wants and needs than in the past. This changed perspective has done nothing to alter the eight basic functions of marketing—product development, packaging, pricing, personal selling and distribution, service, advertising, promotion, and research. It has, however, brought about a shift of emphasis among them. This, in turn, has brought about a change in organization structure.

Two things are happening. First, each of the eight basic functions is being set up as a separate function so that it can be made more effective. Second, and more important, these various functions are more closely coordinated.

This increased emphasis on coordinating the basic marketing functions has led to the need for better planning and the growth of what is known as the "marketing plan."

Many companies had difficulty in finding someone within their organizations who could take over-all responsibility for the marketing plan. Most of their marketing executives had had broad experience in only one phase of the marketing job, and often coordination was possible only at the vice presidential level. Frequently the vice president had so many other responsibilities that he found it difficult to maintain proper coordination.

Because of this, advertising agencies began providing facilities for the development of marketing plans for clients who wanted this kind of help. Undoubtedly, many clients need this service. We at Cannon Mills did, until recently. But, in my opinion, most companies should assume the responsibility as quickly as possible, and we have already done so.

- **The responsibility for producing the company's marketing plan should not be handed over to the agency.**
- **But special conditions must be met within the company to produce a sound plan.**
- **For an effective client-agency partnership, responsibilities for each aspect of the marketing plan must be spelled out.**
- **Before an advertising program is decided upon, a solid groundwork must be laid—on both sides.**

We are now working on the role of the advertising agency in this planning, and have arrived at the following general statement:

In examining the individual functions required for an effective agency service, we have approached this review from the basic standpoint that the agency's primary responsibility is the development and execution of the advertising program.

The other functions within the total marketing process are primarily the responsibility of the advertiser. For example: product manufacture and product development, packaging, pricing, and promotion.

Though the primary responsibility for these is with the advertiser, an agency can often contribute productively in these areas. The degree to which the agency *can* contribute to these functions depends on the degree to which the advertiser chooses to counsel with the agency. The decision must, of necessity, be with the advertiser.

Then we divided our advertising into three categories: (1) basic or national advertising, (2) trade advertising, and (3) promotional or local market advertising, used to help in solving marketing-distribution problems in various individual markets throughout the country.

Areas of responsibility

Within each of these three categories we grouped the various functions involved in the advertising into five areas of responsibility:

Group 1: What to say, to whom, where, how often, and how much to spend to do it. This is a quick way of summing up the development of the basic selling idea, identification of the people whom the company wants to sell, decisions on the markets and the channels of distribution, and the amount of money to be spent on each individual market in relation to the competitive situation and the potential.

Group 2: How to say it. This is definitely the responsibility of the agency. Agency people are the communications experts, better qualified to do this part of the job than anyone else.

Group 3: Buying space and time. This is also an agency function.

Group 4: Production. Historically, this has been an agency function, but lately I have noticed that some advertisers are investigating the possibility of taking it over.

Group 5: Evaluating advertising effectiveness. This is a subject that needs study and discussion by both our agency and ourselves, as well as by the advertising industry as a whole.

It is in the Group 1 area—the "what to say" area—that responsibilities most need clarification. No matter how good the communication to consumers, the advertiser cannot succeed unless the idea that is communicated will motivate them to buy the product. Obviously, also, the company's over-all marketing plan must cover the points in Group 1.

To do a thorough job in this area, the kind of job that will result in the most effective advertising, requires a very detailed knowledge and analysis of:

- *The product.* We must answer such questions as: Is there a present or latent consumer need for the product? How does it compare with competitive products in quality, convenience, or price? Is the price right? Is there a need for product improvement or product innovation?
- *Markets.* Is the distribution right? Through what classes of trade should this product be sold? In what markets is the product reaching potential and where is it missing? What is its potential by individual markets?
- *Consumers.* Why do consumers buy this product or competitive products?

To obtain this information requires considerable research of all sorts. The end-result will depend largely on the quality and proficiency of the research, and the judgment of the person or persons who interpret the findings.

Deciding what to say

It should be remembered, too, that the process of investigation of the "what to say" area is a never-ending one. The results are continuously incorporated into the advertising and obviously affect the whole marketing plan. As the new ideas are tried and researched, more new ideas are bound to develop.

In my opinion, the responsibilities in Group 1 can be approached only as follows:

First, the client and the agency must recognize that the responsibilities in this area need to be defined, that successful advertising today can be achieved only through joint effort of the agency and the client working together.

Second, the client and his agency must sit down and spell out in detail in writing their various areas of responsibility. And both parties must approach the matter realistically rather than emotionally, objectively rather than subjectively.

We have worked out the responsibilities in detail with our agency for our basic advertising and our trade advertising. We know how many people are required and about how much time they require.

Assigning the tasks

Now in process is the study of the division of responsibilities for our local market or promotional advertising. When we have completed this, we will detail in writing the tasks we are responsible for and those that should be performed by the agency.

With the completion of this document it is our belief that the Cannon agency-client relationship will be more clearly understood by both parties, that the work produced will be more effective in helping us reach the company's marketing goal, and that the financial aspects of this relationship will be satisfactory to both. END

Sharing the Marketing Job

In keeping with the trend toward full integration of advertising into the total marketing effort, many leading agencies today offer a wide range of services not directly connected with the preparation of advertising. In some instances, these services may cover almost every phase of the client's marketing program, from product research to sales training.

One leading exponent of this "full marketing" approach is Robert A. Allen, president of the advertising agency of Fuller & Smith & Ross, Inc. It is Mr. Allen's belief that especially with a smaller advertiser—a substantial share of the over-all responsibility for the preparation of the marketing plan should logically fall to the agency. Mr. Allen told DR&MI: "Joint preparation of the marketing plan is somewhat analogous to sending the agency man through the client's factory for ideas on copy. Because the advertising agency is a creative organization and one removed from daily routine of the client company, it may be able to suggest new approaches to many phases of the marketing problem or even to the whole distribution effort if it is made an active partner and brought into the planning from the first."

Mr. Allen points out that the actual division of effort will vary with the individual case. "Larger companies," he says, "usually have specialists in all phases of marketing and much of the detailed planning will be delegated to them. Smaller companies can equalize things by making greater use of their agencies. The modern agency is likely to have a full complement of specialists, if only in order to double-check the plans its clients have prepared."

When management has decided just how the agency's contributions should fit into its marketing scheme—what advertising services it wants and needs—the next step is to pick a reliable, imaginative agency that is prepared to do the job.

How to

Finding the Agency That Fits Your Needs

ROBERT E. LUSK, *President, Benton & Bowles, Inc.*

PICKING AN advertising agency is in some respects like picking a wife. In neither case is it helpful to have "lots of experience." The man who marries several times is not likely to be a good judge of wives. And a company that hunts for a new agency every few years is not likely to be on the way to a solution to its advertising problems.

That's why the best approach to the question of picking a new agency is, paradoxically, to see whether you can't avoid the necessity for doing so. This is a completely practical suggestion, for there are usually so many opportunities for improving your present agency relationship and so many advantages in not having to break in a new agency that only really poor performance justifies the costly process of making an agency change today.

And it *is* costly. When a new agency enters the picture, a very substantial amount of the time of both company executives and the agency staff will be absorbed in educating the agency. The education is necessary, since the more the agency learns about the company—its products, its markets, and its way of working—the better its chance to do a good job. But the learning takes time—many months, and sometimes years.

I'm talking, here, about the modern type of client-agency relationship, in which the advertising, in a true sense, is a joint product of client and agency—rather than the superficial and outmoded relationship in which the company uses the agency "just to prepare some ads." Such a joint effort necessarily calls for close, continuous, and personal contact.

Developing a partnership

And there's ample evidence of how valuable this way of working with its agency can be for the client. If you check today's outstanding marketing successes, you'll find the great majority of them come from the companies that have developed just such close, long-term relationships with their agencies.

This helps to define for us, I think, the real target of your thinking on advertising agencies. It's not: "Where can I *find* a good agency?" It is rather: "How can I best *develop* an effective agency relationship?"

Oddly enough, exactly the same criteria apply whether you are seeking to preserve and improve an agency relationship or have determined to make a new one. When you discuss them frankly with your present agency, you may well find that you can do better by staying with it than by trying to establish a new relationship. Not always, of course, but often. And should you find it advisable to break the relationship, you must examine these same criteria carefully to escape yesterday's dissatisfactions with tomorrow's new agency.

Many of the criteria are applicable to special agency or company situations. But the most important ones, I believe, hold true for *all* companies and agencies.

First, the client has three basic obligations:

1. He must define clearly, to himself and his agency, what part he expects advertising to play in his business—and what he expects from his advertising five years from now.

2. He must define specifically what he really wants and needs from the agency—doing this, if possible, no less carefully and in no less detail than he would use in developing a "job description" for any major operation within the company.

3. He must insure the two-way communciation at executive and staff levels that the agency needs to work effectively toward the short- and long-range advertising objectives.

The agency's matching obligations are these:

1. It must be genuinely interested in, and understand, the client's business—not just its advertising.

2. It must be equipped to deliver all the resources of management, talent, and facilities required for effective contributions to the client's advertising and marketing.

continued on page 62

- **Changing agencies frequently can be costly for a company—and not just in money alone.**
- **What's at fault, in many cases, is not the agency but the agency-company relationship.**
- **In judging an agency, size up its top personnel as if they were candidates for your own executive team.**
- **To produce an effective partnership, both agency and company have specific contributions to make.**

Pick an Advertising Agency

When It's Time for a Change

JOHN ORR YOUNG

ANY ADVERTISER would be well advised to sit back occasionally and reevaluate his advertising and his advertising agency. A company takes a look at its inventory periodically. It appraises its machinery. Why not treat its advertising investment the same way?

In making this suggestion I am not inviting a periodic wholesale shift in agencies among the nation's advertising accounts. Having had something to do with more than a dozen advertisers who have considered an agency change in the last few years, I can report that, if the average holds, in half of the instances the advertiser will not change agencies at all but will straighten out some difficulty with his present agency.

A periodic reevaluation is advisable even where there seems to be no outward reason for it. In too many companies the advertising expenditure is allocated each year out of habit, or because the competition advertises and the company has to follow suit. Some companies even feel that it's money spent on something that really can't be checked for results, an expense that management half wishes it didn't have to okay in the first place.

It's too bad this attitude exists, because advertising can be assigned many corporate jobs even if there is an intangible quality about it. Management's attitude is frequently due to a lack of understanding of this phase of business which, it must be granted, is different from more scientific aspects, such as engineering, production, or accounting.

In any case, the first step in selecting an agency is an objective study of things as they are. If management feels that it can't take a really objective look at itself and its organization, perhaps some outside help can be called in to give an unbiased viewpoint.

The objective look may reveal that your present agency is the right one for you, but that the relationship needs some correction. But if it turns out, after your preliminary study, that you definitely need to make an agency change, the following outline provides a step-by-step guide:

1. Initiate some research, or have someone do it for you, to establish how the public sizes up your company and how you stand with the trade, and to get some opinions about your products. Fortify yourself with as much information as you can, especially about the relationship of advertising to your problems. The more information you can provide about your company and your problems, the more intelligent will be the agency presentations.

2. Outline on paper: (a) what you can reasonably expect your advertising to accomplish for you; (b) what you can reasonably expect from your advertising agency; (c) what phases of your advertising program will be handled by your own advertising department.

3. Now prepare a "background" statement based on the foregoing and other facts to present to the agencies you invite to solicit your account.

One such statement, prepared for an upstate New York firm, ran to five typewritten pages. After a brief history of the company, it covered the following, plus names of advertising personnel: (1) products, (2) markets, (3) distribution, (4) sales, (5) advertising—with the specific data under each subhead. The second half of the statement, headed "Presentation," asked the agencies for information about themselves under the following subheads: (1) growth of agency for the past several years, (2) list of accounts, (3) manpower available to handle the specific account, (4) range of services, (5) creativity, (6) planning, (7) media, (8) sales promotion, (9) merchandising, (10) research, (11) publicity or public relations. Finally, since the company is located away from any large advertising center, a summary of just how it would like to work with its agency was added.

4. Consider your geography. With today's fast travel facilities, don't be too concerned about the proximity of the

continued on page 65

● Before inviting presentations from new agencies, a company should take several steps to insure a wise choice.

● How much you intend to spend on advertising may be an important factor in your decision to pick a particular agency.

● But there are a variety of other key questions that you should ask the agencies to cover in their presentations. The author offers a rundown of some typical queries.

However productive the client-agency relationship may be, optimum results are impossible without a soundly conceived budget. The articles on these pages describe new methods now being developed to make sure every advertising dollar gives the last full measure of promotion.

How Many

Budgeting Your Advertising for Profit

FRANK W. MANSFIELD, *Director of Marketing Research, Sylvania Electric Products, Inc.*

IN ESTABLISHING their advertising budgets, too many advertising departments are doing one of the following:

- Simply trying to get as big a budget as possible without regard for the realities.
- Investigating competitors' activities and following their lead. The company determines what percentage of sales its competitors are spending for advertising and then uses a similar percentage in its own budgeting.
- Shirking responsibility by drawing up a list of the things it would be well to do, and then leaving it to the financial planners to determine how much of the program will become actuality.

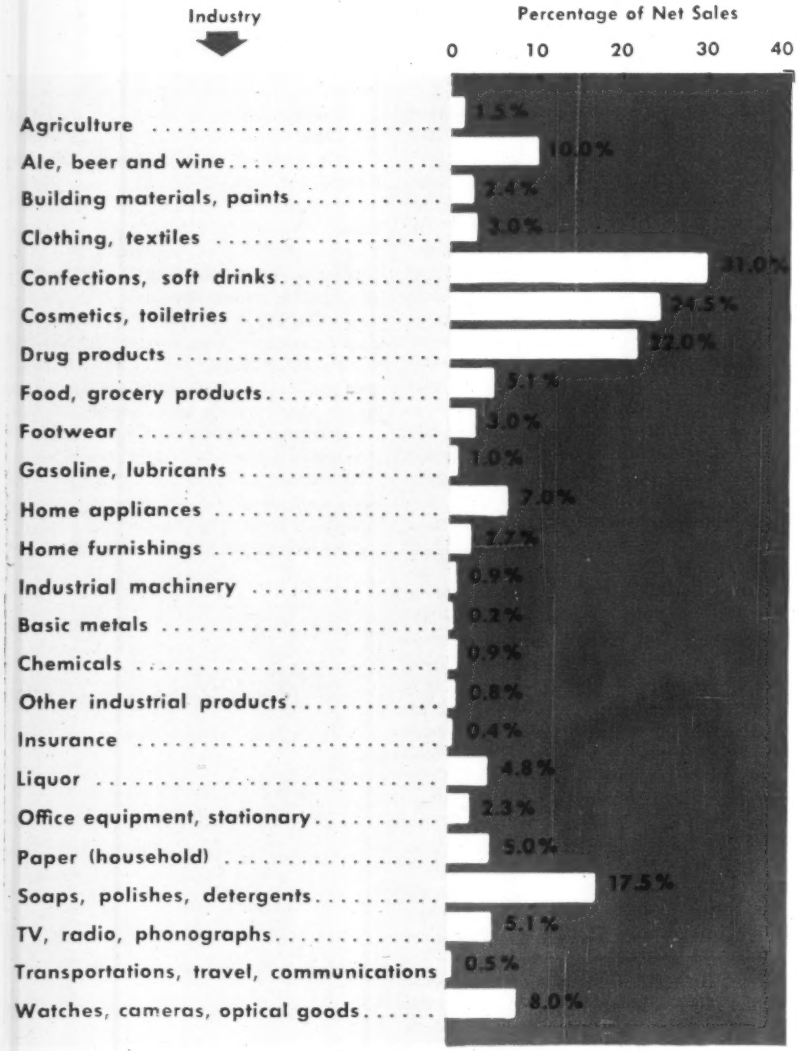
Even in the old days these methods did not constitute intelligent planning and were not very effective. And these are new days. The old methods are likely to prove completely ineffective in the competitive period ahead. Top management today has the right to expect more intelligent planning from a man of the advertising manager's rank and responsibility.

How does management decide to purchase a new machine or build a new plant? Such expenditures must be defended on the basis of return on investment. There must be results—tangible results. Advertising is no different. It must show tangible results, and the responsibility to make it do so rests with the advertising manager.

Let me confess right here that I have no pat formula for determining the size of the advertising budget. But I have given the subject a lot of thought and discussed it with dozens of persons who know the field. Methods of starting an aggressive attack on the problem do exist.

Let me start off with a categorical rule, greatly over-simplified: *Advertise*

continued on page 71



Dollars for Advertising?

Setting the Budget for Industrial Products

JOSEPH E. BACHELDER, *Managing Director,*
Industrial Advertising Research Institute

THE BUDGET for advertising industrial products is a crucial figure. It crystallizes the plans for indirect and mass selling and reflects the attitudes of top management towards advertising. Nevertheless, the data on which it is based are often nebulous, representing little more than experienced guesses.

The problem was aptly stated by the president of a large corporation: "I was originally an engineer and then spent some years in selling. Now when I go before the board of directors with our annual budget I can understand and explain every item except the advertising figure. I can never quite tell whether the millions we are spending are too little, too much, or the right amount."

The chief interest of many top management men is in producing a product. They realize that it must be sold if the company is to make a profit, but they regard selling as a necessary evil. In such cases, advertising becomes an accessory evil, whether necessary or not.

Another factor that produces confusion about the advertising budget is top managements' familiarity with cost accounting as applied to production. Here each item of cost can be related to an item of sale in dollars and cents. Some people make the basic mistake of carrying this idea over to selling. There is no justification for comparing the amounts spent by the sales department to sales volume.

Such a comparison would be justifiable only if we could determine, with almost slide-rule precision, what proportion of sales volume is due to the selling effort—something we can seldom, if ever, do. Experience with the company, preconceived ideas about the company or the product, specifications, delivery time, price, and even pure luck may enter into purchase decisions.

This is not to deny the basic importance of personal selling. It is pointed out only to indicate that the justification of direct selling costs rests on intangibles and unknowns to about the same degree as the evaluation of the advertising budget.

Hit-or-miss budgeting

There are a number of haphazard methods that may be employed in judging the advertising budget. One can be called the "keeping-up-or-down-with-the Joneses" plan. Under this system, the budget is based primarily on what competitors are doing, rather than on company needs. An even easier method is "walking into the future backwards." The company looks at last year's budget and then guesses whether this year's business will be better or worse and adds or subtracts accordingly. In this case, it is not necessary even to go to the trouble of finding out what competitors are spending. The company treasurer or the bookkeeping department can supply last year's budget figure.

Or the two plans may be combined in the "percentage of gross sales" method. Here again it is not necessary to ferret out what competitors have spent. The National Industrial Advertisers Association and several business publications provide data on the percentage of gross sales spent on advertising by several industry groups, and the company's figure can be easily calculated. If the company's percentage is lower than that of the industry, the advertising manager frequently attempts to bring it up to the average or to strike an average between the industry figure and his own.

Other faulty methods

There is great danger for the advertising manager in this method. If the company has been spending a larger percentage of the sales dollars on its advertising than the industry, the difference is likely to be lopped off his budget regardless of company needs. At the least he will have to do a great deal of explaining to convince top management that the higher figure is justified.

Then there is what might be called the "personality" method, under which the size of the budget depends on the personalities of the advertising manager and the man who approves the budget. Here the figure is arrived at through a resolution of conflicts, and the amount finally approved may depend on who has the stronger drive.

Still another technique, a minor one, is the "statistics by the pound" method. Each budget item is surrounded by so many impressive footnotes, citing figures of one sort or another, that in desperation top management either passes the budget without examining it closely or cuts it arbitrarily without regard to the consequences.

Not all companies, of course, use these hit-or-miss methods of budgeting. Many concerns have advertising budgets based on intelligent, sincere, and well-

continued on page 74

Advertising's Share of the Net Sales Dollar

Percentages of net sales spent by industry groups for advertising vary widely, as this chart shows, from less than one per cent to more than 30 per cent. Consumer industry groups seeking the mass market are the heaviest spenders.

Obviously, industry averages should not dictate the amount budgeted for advertising by individual companies, though they are useful background data. The figures shown below are medians based on 1956 expenditures reported by 271 member companies of the Association of National Advertisers, Inc., in 24 industry groups.

The client-agency relationship is one of constant give-and-take. Here, a representative of each spells out the ways that both company and agency can pull together to produce more profits.

Client-Agency

It's Mutual Confidence That Counts

WILLIAM A. MARSTELLER, *President, Marsteller, Rickard, Gebhardt & Reed, Inc.*

THE RELATIONSHIP between an advertiser and his advertising agency is perhaps unique. Although much, or even most, of an agency's income is derived from media, the agency's primary responsibility is to its advertiser client.

The Frey report, and the many articles on client-agency relationships it has spawned, might suggest that compensation is a primary cause of client-agency disaffection. But a close analysis of the circumstances surrounding most agency changes, on the one hand, and a searching review of some of the oldest and most successful client-agency relationships, on the other, indicate that compensation is only one factor in any difficulties that develop. In fact, friction over compensation is often an effect rather than a cause of trouble. Just as poor advertising can undermine an entire marketing program, so can misunderstandings over compensation kill off an otherwise successful and happy client-agency arrangement. And just as the best advertising will fail if the product is poor or distribution inadequate, so will the client and agency come to the parting of the ways if the agency's advice is bad or its performance inept, or if the client is uncooperative. This can happen under any form of compensation and regardless of legally and rhetorically admirable documents describing the compensation.

In the most profitable and productive client-agency relationships, a high degree of respect, understanding, and confidence prevents the element of compensation from becoming a source of discord.

By way of analysis, I examined five cases where client-agency relationships fell apart or limped along from crisis to crisis. In four of the five, all these factors were present:

1. A feeling on the part of the client that it wasn't getting enough attention from the agency, or at least from certain of the agency's personnel.

2. A feeling on the part of the agency that it was not being kept fully informed of client marketing and product development plans, or that it was blocked from adequate contact with some of the company officials who could provide the facts needed.

3. Reticence, or even moral cowardice, on the part of the agency, which made it hesitate to bring matters to a head in the early stages of any difference of opinion.

4. Greater concern on the client's part with the details of advertising techniques than with the objectives and the results of the complete advertising and sales promotion plan.

Compensation did not become a bone of contention until after there was friction or a breakdown in mutual respect. Once irritation is present, it is easy for a company to wonder why art work costs so much and easy for an agency to wonder why it should be investing its profits in so many useless conferences. The fact is that when things are going badly, art work (as an example) *does* cost more. Tension often leads to trouble, error, confusion, and recrimination.

Day-to-day contact

An advertising agency usually has close, continual, and personal contacts with its clients. "Continual" is a key word. The legal counsel, for example, does not visit the company every day or every week. He is active in behalf of his clients only from time to time. Because he has advanced training and special certification, it is usually assumed that he has a greater degree of technical competence in his own field than the client has. So his recommendations tend to be accepted (or rejected) without much alteration. The client who sees advertising every day sees legal briefs infrequently. And so the climate of contact and the interplay of criticism is completely different.

Because the agency-client relationship is so definitely a personal one, it is subject to all strains that exist in any habitual personal relationship. The people, much more than the policies, determine its success or failure. That is why, in my opinion, trying to compress an agency-client relationship into a written document that will in effect be an insurance policy against divorce, is largely wasted effort—even though it is much in vogue today.

Creative marketing—creative use of

continued on page 78

- **Compensation isn't really the root cause of client-agency friction that many people think it is today.**
- **The danger signals that point to deterioration of the relationship can often be spotted in advance of the "crisis."**
- **No client-agency contract, however detailed and comprehensive, is an insurance policy against divorce.**
- **Both the advertising department and agency must work with the company marketing division to insure the close teamwork needed for effective advertising.**

Teamwork: Key to Successful Advertising

Building a Productive Partnership

ROBERT M. GRAY, *Manager,*
Advertising-Sales Promotion Division,
Marketing Dept., Esso Standard Oil Co.

SEVEN YEARS of experience in advertising agency work and almost 25 years in advertising and sales promotion at Esso have convinced me that a good working relationship between client and advertising agency rests on three rules:

1. Be sure your agency has full and ready access to all the information it needs to do the best job for you.

2. Give the agency primary responsibility for the creative work, but reserve the right to question its suggestions in the light of your own deeper knowledge of your business.

3. Spell out in detail, *on paper*, exactly what part of the advertising program the agency is to handle and what part you will take care of, the method of compensation for various types of work, and other such details.

It seems to me that these principles apply whether your advertising investment is small or large. In Esso's case, our program is an extensive one involving approximately $15 million annually for advertising and sales promotion, but the same principles concerning the relationship between client and agency will apply, or at least can be adapted, to many accounts regardless of size.

Today many large advertisers have advertising staffs as large and as talented as those of their agencies. And the amount of money many companies invest in advertising is so large that a competent advertising director is a necessity.

The client-agency relationship is developing into a true partnership in which neither the agency nor the client dominates the situation. And back of many changes currently going on in accounts and personnel in the advertising business is the fact that advertisers, through their own competent advertising directors and staffs, are pushing the agencies to produce better advertising. They are not simply accepting their agencies as the fountainhead of all wisdom, as in the old days.

Advertising agencies generally have not taken very kindly to the study of agency practices and compensation methods made by Professor Albert Frey of Dartmouth under the auspices of the Association of National Advertisers. However, this report served a constructive purpose in revealing that in too many instances there is misunderstanding between clients and agencies and that the method of compensation is only one phase of the relationship that results in unhappiness. Perhaps too many agencies have shown a tendency to be satisfied with the status quo in client relationship instead of welcoming an opportunity to develop new approaches.

Pinpointing the expenses

Encouraged by advertisers, and under the pressure of discussion caused by studies like the Frey Report, agencies will undoubtedly seek to develop more accurate cost accounting, to cite one area in which improvement obviously is called for. Accurate knowledge of how much each phase of a client's work is costing and whether the agency is making or losing money, not only generally on an account but specifically on special segments and phases of it, is not too much to expect.

Our company believes firmly in a free enterprise economy. We intend to operate at a profit, and to do so we must have, to a very high degree, a knowledge and control of our various costs. Agencies, operating as groups of creative people, have too often neglected this kind of accounting in the past and allowed costs to get out of hand. But agencies are handling tremendous sums these days, and they must develop administrative practices in keeping.

We also find widespread discontent among advertisers about production costs. This became evident at a recent meeting of a representative group of advertisers and the top financial people of five or six of the largest agencies. It was surprising to the company representatives to hear these agency financial men admit that agency production people are often insufficiently supervised, seldom if ever audited, not always properly trained on the job, and yet must function under constant pressure.

Agency concentration on the creative function must be balanced by good business practices. A good campaign can lead to an unhappy client if the costs are excessive or if some part of those

continued on page 82

- **In administering their advertising programs, companies have gained sophistication, are less inclined than they once were to "leave everything to the agency."**

- **Especially in bigger companies, advertising staffs are growing. They're becoming more professional, more creative—and they're bearing a greater share of responsibility for the advertising program.**

- **A company's understanding with its agency should be spelled out in detail in writing. Esso, for example, has a fifteen-page contract.**

(Advertisement)

For the President of a growing concern—

Who wants to retire on about half of his current income . . .

Who would like to afford the same kind of security to his long-time employees . . .

Who never wants his firm to fall into the hands of "just anybody"—

we think the best possible answer probably lies in some kind of pension program — the *right* kind of pension program for your particular situation, your particular company.

And just which kind is that?

Well, obviously, the right answer for you depends on a good many variables.

For example: On the benefits you hope to provide and the costs you can incur.

For example: On the age and number — the salary, sex, and service status of all your employees.

So there's no ready-made solution. But there *is* an answer—a tailor-made answer for each set of circumstances—and over the years we have been able to help any number of companies find it.

As a matter of fact, we are in regular contact now with enough fine banks and actuarial firms to let us bring all the help necessary to nearly any door.

If you don't have a pension program yourself —

Or you're not quite sure about the one you've already established—

You might find it helpful to talk with one of our account executives.

With 126 offices in 112 cities there's probably one nearby. But in any event, you can simply address a confidential inquiry to—

R. J. CHVAL, *Partner*
Pension Fund Department DR-120

Merrill Lynch, Pierce, Fenner & Smith

Members New York Stock Exchange and all other Principal Exchanges

70 Pine Street, New York 5, N. Y.
Offices in 112 Cities

WHY MANAGEMENT IS REAPPRAISING ADVERTISING

continued from page 49

consumer acceptance, perhaps even consumer demand, for your product or products.

- Introduce new products, new improvements, and new ideas to the public and to the trade almost overnight.
- Create an "image" of your company valuable in attracting good personnel and investment capital, in creating good public relations for your company in your plant community and in other circles of influence, such as government and labor.
- Obtain distribution for new products and widen distribution for older items.

By doing these things, it can assume part of the sales load. The dollars spent on advertising are not an "extra" expenditure, but money that would otherwise have to be spent on other phases of marketing.

Advertising *cannot:*

- Be expected to do a *precise* job and produce a *precise* result—at least, at this stage of its development.
- Produce miracles—it cannot enable you to buck a basic customer trend.
- Put over an inferior product by sheer quantity and quality of verbiage, no matter how much money you spend.
- Work effectively if management makes the advertising budget a catch-all for every expense it can't charge elsewhere.
- Function efficiently if used for vanity purposes — mere self-glorification, or providing management with opportunities to mingle with top TV personalities, for example.

Advertising seeks to influence people, but people cannot be manipulated like metals and numbers. Management executives must recognize that advertising is more an art than a science. It cannot guarantee to obtain a set objective for a set expenditure. It cannot influence people in a predetermined, measurable way.

Some of the mystery of advertising evaporates if we consider it in elementary terms. If a company has only one large customer, it can reach him most effectively by calling on him personally. If the company has 50 to 100 customers, it can still reach them individually, if not by personal calls, at least by telephone. If it has more than 100, it can, perhaps, write each one a personal letter. But as the number of customers and prospects increases to the point where all these methods become impractical, the company turns to advertising.

Finding the motive

Advertising is a speeder-upper, a quickener of basic desires already in the consumer's mind, whether conscious or subconscious. People may not know that they want certain products or certain improvements in old ones until advertising calls attention to them.

Human beings, as modern research has learned the hard way, do not always know their own motives, and are notoriously poor reporters of them even when they know them. Advertising can crystallize their needs and desires into preference for certain products and certain brands.

And so advertising becomes increasingly significant in our economic and social life. It involves tremendous financial investments. It has areas of certainty and areas of doubt. And it works best when it is coordinated with other marketing functions.

Enter the ad manager

Who, then, is the key man in administering this investment, in seeing that it is coordinated with other functions, in separating the knowable from the unknowable? This question leads to a consideration of advertising personnel and particularly of the role of the advertising manager.

Everything that has been said so far should suggest one obvious conclusion: the executive whom management places in charge of advertising should be one who understands it intimately enough to interpret its advantages and limitations, one who is able to administer a large company investment efficiently, and one who can convey the company's marketing concept to the advertising agency in language it can understand.

The stature of the advertising director is increasing from year to year as companies increasingly place such responsibilities on his shoulders. The growing requirements of the job demand men and women of exceptional talent, and they must be compensated properly for the combination of creative and administrative ability and the experience they need.

The recession has made strong demands on advertising to produce through hard sell. As a result, there has been a weeding out among corporate personnel and agencies. Advertising has frequently been characterized as a young man's business, but this cliche is giving way before today's pressure for the kind of experience that most young men in their 30's have not acquired. Many of those responsible for advertising today have never had to face the sales problems of a business recession. Lush war years were followed by years in which a consuming public had money to spread over many items and many brands. A whole generation of advertising men has matured in this period. When, in isolated industries and competitive situations, tough sales problems have shown up amid the general prosper-

NEW CHEVROLET TRUCKS FOR '59!

New Might! New Models! New Money-Saving Power!

Task-Force 59 brings you more to work and save with in every weight class—more models, thriftier engines, stronger cabs and frames, safer brakes, tougher axles and transmissions! Here's the longest, strongest line of Chevrolet trucks ever built, the best yet of the best sellers!

Good news in the light-duty class! Chevy's longer, stronger '59 line gives you a *dozen* big pickups to choose from . . . new 4-wheel drive models, newly fashioned panels, Step-Vans, and Sedan Deliveries! Scores of innovations include new hard-pulling Positraction rear axle, new bigger brakes, new stronger cabs, new broad-shouldered styling refinements!

Bright new middleweight and heavyweight might! New big-tonnage L.C.F. and conventional trucks are heftier than ever with new 5-speed transmissions, new huskier clutches, more durable rear axles in capacities as high as 18,000 lbs.! G.V.W.'s go up to 36,000 lbs. in tandems . . . and up to 21,000 lbs. in new Series 50H and 60H models with heavy-duty components!

New thriftier 6's, all-new V8 power! Chevy's best selling 6's are set to pinch pennies like never before with new camshaft design, new valve train durability! *Six* modern V8's are-tougher built for bigger savings; an all-new V8, the 185-h.p. Workmaster Special* with advanced Wedge-Head design, is offered in Series 70 and 80! See 'em for yourself—the bright new trucks of Task-Force 59 at your dealer's now! . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

**Optional at extra cost.*

CHEVROLET

CHEVROLET TASK-FORCE 59 TRUCKS

TURCO Gets a Better, More Uniform Finish

And Cuts Paint Cost 35% with—

RANSBURG

NO. 2 PROCESS

Frequent color changes are simplified now in the painting of playground equipment with Ransburg Electro-Spray in this St. Louis plant. Long, tubular parts, as well as these smaller pieces, are uniformly coated with the Ransburg reciprocating disk.

QUALITY IMPROVEMENT! That was Turco Manufacturing's chief reason for changing from flo-coat to electrostatic spray painting of their quality line of playground equipment.

Not only is Ransburg No. 2 Process providing a higher quality, uniform coating on all parts, but Turco is saving 35% in paint cost!

Simplicity in color change with Electro-Spray is another important advantage here. With Turco's production methods, colors are changed 15 times in an 8-hour shift. Now, changes are made on the fly with no down-time. By contrast, the former "stop and go" method would mean over an hour's lost time in a day's operation.

NO REASON WHY YOU CAN'T DO IT TOO!

Whatever your product, if it's painted, we'd like to tell you more about the worthwhile savings and benefits which can be yours with RANSBURG ELECTROSTATIC PAINTING PROCESSES. Write for our No. 2 Process brochure which cites many examples of electrostatic spray painting on a wide variety of products.

Call or write

RANSBURG
Electro-Coating Corp.
7822 West 56th St., Indianapolis 23, Ind.

ity, this generation has rushed in with gimmicks.

Such gimmicks as one-cent sales, premiums, contests, free offers, sales stunts, and publicity high-jinks have their place. They can be used to introduce a new product, solve a temporary sales situation, create a change of pace, or stimulate jaded salesmen. But they do not answer the need for a long-term brand-image, creative advertising program.

The last few years—and especially the months of business decline just now ending—have demonstrated the need for above average talent on the part of those responsible for today's important investments in advertising. The return to vigorous advertising, which can produce without the stimulus of increases in consumer disposable income or the temporary help of gimmicks, partially explains the game of musical chairs that is going on along Madison Avenue. Accounts are moving from agency to agency; agencies are splitting or merging.

For many years advertising agencies thrived on the premise that advertising was a special craft, something to be brewed out of special herbs of creativeness back at the shop. Management, it was held, should not ask too many questions about such private formulas. Today the amount invested in advertising is too great for management to deny itself the privilege of examining the recipes from which its advertising is being made. Advertising directors, knowledgeable in their own right about advertising and unimpressed with mumbo-jumbo, look into the formulas and report on them. Frequently they suggest some ingredients on their own. The advertising manager's knowledge of his company's whole marketing concept often enables him to suggest new fields to be explored for advertising ideas—even the ideas themselves.

Intangible but vital

These are the reasons why advertising is in the spotlight today. Advertising men realize they are under close scrutiny, but they feel, and rightly, that as individuals and as part of a business they will come out of any examination with credit.

Their concern is not necessarily one of vanity, nor is it personal. It lies in the realization that the advertising business is concerned with people and has an intangible quality that sometimes defies precise definition.

Advertising is essentially the extension of personal selling. We are improving our knowledge and skill in advertising just as we are improving our techniques of personal salesmanship. That advertising is a business peopled by thoughtful leaders tackling its problems with realism and intelligence is apparent from the articles that appear here. END

TELL IT TO STENORETTE®

Dictate and transcribe with this one miracle pushbutton machine

One Stenorette does both jobs. Saves money... saves time!

$179.50* Transcribing accessories at slight extra cost.

STENORETTE COSTS MUCH LESS...DOES MUCH MORE. See for yourself how much faster the paperwork disappears when you "tell it to Stenorette". This fully-equipped, precision electronic business machine gives you every control, every time-saving convenience, at half the price —plus *other* advantages you can't get elsewhere at *any* price.

MAGNETIC TAPE MAKES DICTATION SIMPLE. Here's why more than 300,000 Stenorettes are now in use throughout the world. You dictate onto Mylar® magnetic tape—the finest medium for recording the human voice. You erase automatically by simply *re-recording* over the words to be corrected—*you don't even touch the machine!* You dictate...transcribe ...start again after an interruption... review a sentence or a whole report... all by pushing a button on the microphone! Clear, natural "playback" tone. *The magnetic tape reel takes up to 45 minutes of dictation, and you can use the same tape over and over again —indefinitely!*

COMPLETELY PORTABLE. Works everywhere. Goes where your secretary can't. Lightweight and portable as your briefcase. Even operates perfectly in a moving car, train or plane. "Conference" setting lets you record business meetings. Simple attachment lets you record telephone conferences, too.

WANT TO TALK YOUR WAY TO A SHORTER DAY? "Tell it to Stenorette", the complete dictating-transcribing machine that every office can afford and that no office with a lot of paperwork can afford to be without. Stenorette saves time, saves money, saves mistakes; yet it costs even less than the price of a standard office typewriter. Mail coupon today for free brochure. No obligation.

Only DeJUR-GRUNDIG STENORETTE carries the Fire Underwriters' Laboratories' label, your guarantee of the highest safety standards.

*Plus Federal Excise Tax

®® product of Du Pont

®Registered Trademark ©DeJUR-AMSCO Corporation 1958

DeJUR GRUNDIG **Stenorette®**

The most useful dictating machine at any price.

DeJUR-AMSCO CORPORATION, Dept. DR-10
45-01 Northern Blvd., Long Island City 1, N. Y.

Please rush FREE BROCHURE explaining how the Stenorette® can make office work go faster.

FREE!

COMPANY _____
(If you are interested for personal use, ignore this line.)

ADDRESS _____

CITY _____ ZONE _____ STATE _____

INDIVIDUAL _____

TITLE _____

☐ Send me name of nearest Stenorette® Sales/Service Center.

A word to the wise...

is EFFICIENT!

• Your carload freight *can* move more efficiently—*dependably on time* from siding-to-siding. B&O Sentinel Service is the answer! It's efficiency planned for you.

Sentinel cars depart or arrive *at plant sidings* on schedule *times known* to shipper and receiver. Transit time is dependably maintained by the constant personal supervision of trained "B&O Sentinels" in yards and terminals.

If car movement is interrupted at any point, both consignor and consignee are informed, then advised of rescheduling. For a complete carload service on a complete schedule, your wisest move is Sentinel Service. ***Ask our man!***

B&O — LINKING 13 GREAT STATES WITH THE NATION

BALTIMORE & OHIO RAILROAD

Constantly *doing things* **—better!**

FINDING THE AGENCY

continued from page 52

3. It must properly "manage" the account within its own shop so that all parts of the agency can work together on it, enthusiastically and effectively, with a clear understanding of the client's needs and goals.

When something does go wrong between client and agency it can happen in any one, or combination, of these areas. It's important to get an accurate picture of where the trouble really lies.

To this end, let me suggest a more detailed checklist (see box, page 64) that a company might use as a guide in analyzing the agency's contributions to the relationship. Every agency has the obligation to give you clear and accurate answers to *all* your questions in these areas, as long as the answers don't violate a client confidence.

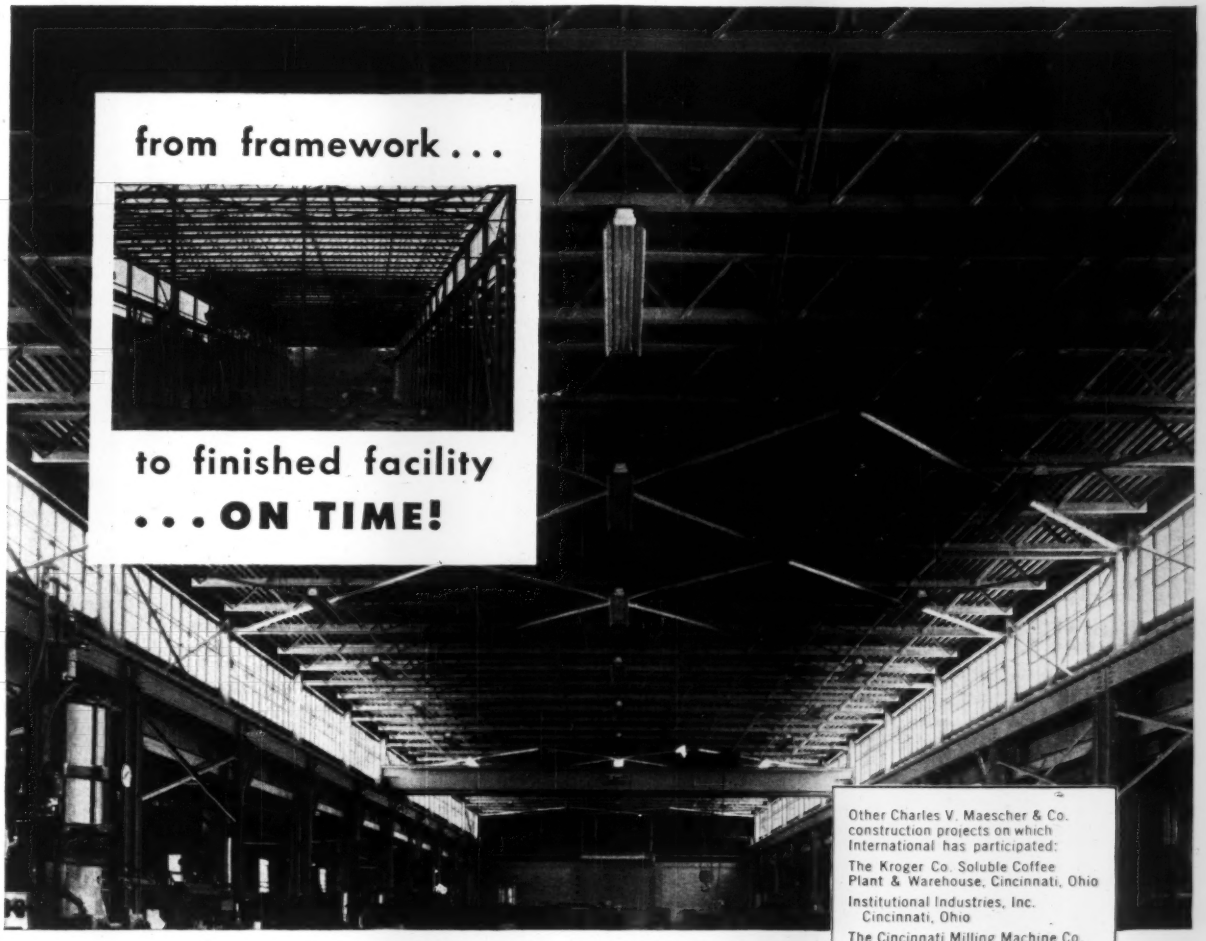
If you've decided after due consideration that you must pick a new agency, you shouldn't really expect it to be able to answer your important questions within the framework of the "agency questionnaires." Simple facts, yes. But the questions and answers of most value to you are too complex to be squeezed into any such form.

This is especially true of what is undoubtedly the single most important question about a new agency: *What kind of people run it?* Most agencies of about the same size offer you approximately the same facilities. They all have account, creative, and media people. Almost all have marketing, merchandising, and research people, to one degree or another. Where they differ most significantly is in the character and ability of their top people—in their management. These are the men who create and directly influence the philosophy, standards, and practices of each agency. They will determine the "compatibility" of the agency and your company over the long term.

Sizing up the top men

There's a tendency for some advertisers to become preoccupied with "the people who will work on my account," down through the middle and even lower echelons. Obviously, this is important. Yet it is much less important than taking adequate time to discover what the agency's top management is really like. This cannot easily be done in a hurry. These are the people who will be responsible for delivering a continuously high level of service. The others who work day by day on the account may change, in both the company and the agency.

That's why the appropriate executives of the company are well advised to take the trouble to go deeper than the quick impression they usually get of the agency's management at presentation


from framework . . .
to finished facility
. . . ON TIME!
Other Charles V. Maescher & Co. construction projects on which International has participated:
The Kroger Co. Soluble Coffee Plant & Warehouse, Cincinnati, Ohio
Institutional Industries, Inc. Cincinnati, Ohio
The Cincinnati Milling Machine Co. Cincinnati, Ohio
The U. S. Rubber Co. Cincinnati, Ohio

Precision Welder & Flexo Press—Cincinnati, Ohio

CHARLES V. MAESCHER & CO., INC.

GENERAL CONTRACTORS, CINCINNATI

. . . counted on International Service for this job—just as they have on so many others!

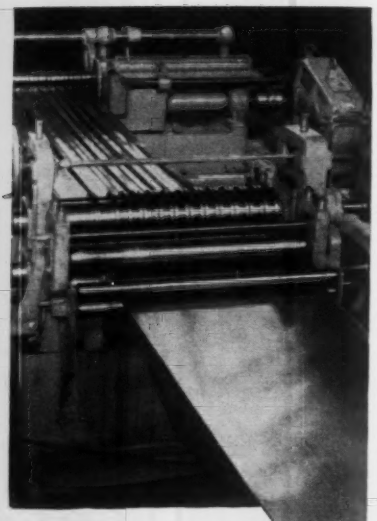
To stay on schedule on construction projects calls for extremely close liaison between contractor and supplier. Because teamwork is so important, performance is the guide used by contractors to form continuing associations with suppliers who produce as promised. International Steel's proved ability to deliver structural steel . . . fabricated right and right on schedule . . . has made for a continuing association with Charles V. Maescher & Company — and with more and more builders all across the nation.

INTERNATIONAL STEEL COMPANY

1435 Edgar Street • Evansville 7, Indiana

This same fully integrated, performance-proved service is available to you — wherever you may be building. Why not make use of International Steel's experience and ability on your construction project involving special structural steel engineering and fabrication? Write for complete data on International Service.

INTERNATIONAL SERVICE



Greater Profit and Operational Flexibility with a YODER SLITTER

Even if you use less than 100 tons of varied strip sizes per month, it will pay you to investigate the savings that are possible through the operation of a Yoder slitter. Savings per ton increase rapidly as coil size and width of strands decrease...so much, that under average operating conditions, a slitter will pay for itself in a few months.

From a small stock of standard mill-width coils, a Yoder slitting line enables you to meet unexpected demands, or to supply "special" width slit strands in a matter of a few hours. This flexible operation increases plant efficiency, resulting in savings of time and money through simplified production planning and greatly reduced strip inventories.

The Yoder line includes slitters of every size and capacity for coil or sheet stock. Send for the all-new, 1958 edition of the Yoder Slitter Book. It is a comprehensive text on the mechanics and economics of slitter operations with time studies, cost analyses, and other valuable data. Write to:

THE YODER COMPANY
5531 Walworth Avenue • Cleveland 2, Ohio

ENGINEERING YODER MANUFACTURING ROTARY SLITTING LINES

How to Judge an Agency

The Management

What you primarily "hire" in an agency is its management; and if your agency relationship is to be an important one, you should apply the same critical standards to its top people that you would apply to any other important business associates:

1. Do they have the character of people with whom you want to do business?
2. Are they sufficiently able, and has this been demonstrated by their record of success with other clients?
3. Do they have broad experience in all the phases of modern advertising that are important to your account?
4. Are they really interested in your business?
5. How well do they (or will they) service your account? What manpower, talent, and facilities will the agency provide?

The Basic Product

The basic product of an agency is, of course, the advertising it produces. To evaluate its effectiveness in today's crowded marketing and advertising world, you must look well below the surface of the message. You must check:

1. The *basic strategy* of the campaign.

- This is always a marketing decision. It is the strategic choice of the strongest selling appeal of the product for your best prospects, aimed at the right markets, at the right time.
- It is the selling strategy on which the advertising is based—and only this determines how much impact the message can have on a consumer.

2. The *selling creativity* of the message.

- This is the measure of how ingeniously and creatively the advertising *sells*. It is distinctly different from its "surface creativity" (see below).
- It is the skill with which a product's selling points are converted into *convincing* words and pictures, rather than merely "tricky" ones.

3. The *surface creativity* of the message.

- This is the power of the message to call attention to itself, to stop the consumer with the vitality and originality of its appearance.
- In essence, it is always the combination of an advertisement's ability to "stop" and "sell" that determines how well it works for you.

The Basic Operations

To keep ahead of the technological advances in advertising and the complexities of modern marketing the agency must continuously update its services. You must check these areas as they apply to your particular needs:

1. *Manpower:* Are you getting the caliber and depth of management and staff work that you need?
2. *Planning:* Does the agency plan thoroughly enough to meet all your requirements, today and tomorrow?
3. *Research:* Does the agency use research effectively to improve its own products? Does it have research facilities available, in scope and depth, to serve your marketing requirements?
4. *Media:* Are the agency's media operations strong enough to insure you the best media values? Does the agency introduce new and more efficient media patterns for your advertising?
5. *Television and radio:* Is the agency's programming operation effective in finding and keeping the right programs on the air for your company?

The "Marketing Services"

The degree to which any company uses the marketing services of an agency depends not only on the nature of its business but also on its traditional approach to the agency relationship. Some clients encourage a close working partnership with the agency in all phases of marketing, others do not, and there is every shading in between. The unmistakable trend, however, is toward increased participation by the agency.

Here is a list of the marketing services you may want from your agency now or later—whether in the form of agency recommendations or field activities and finished product:

- Comprehensive marketing plans and forecasts
- Pricing and sizing polices
- Product innovations
- Package designs
- Collateral material for consumers and trade
- Promotion programs for consumer and trade
- Salesmen's meetings and material
- Distributor and dealer meetings and contact, and so on.

time and in formal meetings. A good working rule is this: Talk with the key men about as long, and in much the same ways, as you would with any man you were considering for a major job on your payroll. The situations are similar, for you want the same levels of integrity, competence, experience, and interest from your agency's managers as from your own important executives.

There's no reason why you cannot have this if you check carefully enough. At any rate—in this, as in the other major questions and answers involved in developing an effective long-term agency relationship—the more detailed attention you can give them, the less often you will have to face the costly and time-consuming job of reevaluation. END

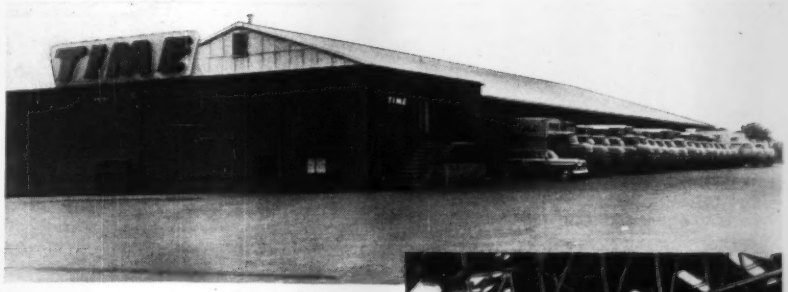
TIME TO CHANGE
continued from page 53

advertising agency to your own headquarters. The agency should not be located too far away, of course, but it does not necessarily have to be at your hourly beck and call. There is something to be said for not having client and agency so near each other that the client gets only touch-and-go service. If the account executive has to travel to visit the client, chances are that both his time and the client's time will be arranged more systematically and there will be fewer interruptions of the job at hand.

5. Consider prospective agencies in relation to the size of your advertising appropriation. Many of the better-known agencies will not accept accounts below a certain set minimum. Some clients get around this by guaranteeing the agency a fee that will give it as much as it would receive in commissions, were the appropriation up to the minimum. Today many agencies perform many types of service and a guaranteed payment for research, public relations, or other extra services can sometimes enable a client to procure the services of an agency it is very anxious to have. But many companies with smaller budgets do not want too large an agency. They like to feel comfortable in their agency relations, to know that they are not one of the smallest and least important of the accounts. And certainly the account should be important to the agency. So, in general, the size of the budget will determine which agencies you will want to ask to solicit your account.

6. You will now want to make a list of the agencies you want to invite to make presentations. In making this list, include the names of agencies handling advertising that you currently admire—the kind that makes you say, "That's the kind of advertising I think we should be doing." From directories available you can add to your list. You will find that some agencies are heavy with specialized types of accounts or accounts in certain industries, and you can eliminate those that have accounts competitive with yours. Then list the agencies handling accounts that, to your personal knowledge, have been successful. To these, you may wish to add agencies that friends have spoken highly of. The total list can then be pruned to the number you think it advisable to listen to. In my experience, the number of agencies invited to make a presentation has ranged all the way from six to 26.

7. Decide who should listen in on the presentations. You may want some members of your company and possibly an outside consultant to do the screening and eliminations. After the number in the running has narrowed down to



SIX REASONS WHY THIS NEW T.I.M.E. TERMINAL IS AN ARMCO BUILDING

1. Low cost per square foot
2. Minimum delay in erection
3. Maximum obstruction-free space
4. Weathertight construction
5. Noncombustible building materials
6. High-quality construction

The new T.I.M.E. Incorporated truck terminal at Memphis, Tennessee, is a model of efficiency. Post-free interior, transparent skylight panels and many built-in features such as truck-level docks, underfloor dragline conveyor, 6000-lb. capacity overhead track and flush platform dock scales make this 80 x 120 Armco Building the last word in rapid and economical cargo handling.

The new T.I.M.E. terminal is an excellent example of how each Armco Building is *built around a business.* Armco Buildings can be assembled in an almost unlimited combination of sizes, shapes and arrangements—with floor space from 28 to over 100,000 sq. ft.

Regardless of how unusual *your* building needs might be, there's an Armco Building for the job. So, before you build, be sure to get the full story on Armco Steel Buildings. Just send the coupon. (Financing arrangements available.)

ARMCO STEEL BUILDINGS

ARMCO

Armco Drainage & Metal Products, Inc.
778 Curtis Street, Middletown, Ohio

Send me information on Armco Steel Buildings for: _____
Approximate size _____
Name _____
Firm _____
Street _____
City _____ Zone _____ State _____

When you ship, title passes, and your credit risk begins

At the time of shipping, you create an account receivable . . . and unless you have credit insurance . . . your insurance protection ceases. You lose control of the asset because title of the merchandise has passed. It is sound to insure your product while you own it . . . it is equally sound to insure it when your customer owns it . . . and owes *you* for it. Aggressive executives, through American Credit Insurance, continue protection of their working capital and profits invested in receivables. It is an important tool for constructive credit management. Our booklet on the many ways credit insurance contributes to financial security and sales progress should interest *you*. Write AMERICAN CREDIT INDEMNITY CO. of New York, Dept. 50, 300 St. Paul Place, Baltimore 2, Maryland.

Protect your capital and profit invested in accounts receivable with **American Credit Insurance**

ANY ACCOUNT . . . NO MATTER HOW GOOD . . . IS BETTER WITH ACI

two or three, other members of your organization can sit in on a final session and perhaps visit the offices of the remaining agencies.

8. Arrange for the agency presentations to be made over a set period so that your associates can clear the time and be free to devote themselves to the presentations without distractions. Don't crowd your schedule of presentations too much. Four a day in a pleasant location (a conference room or perhaps a hotel suite in a larger center, if your plant is out of town) is all you should plan on. Each of your associates should take careful notes as each presentation is made. After listening to a half dozen or more, names, faces, accounts, and facts can blur unless a summary is at hand.

9. You soon will discover as you interview various agencies that the questions which seem to elicit the information you need will fall into a set pattern, and some other than those asked in the "background" piece described may occur to you. Here are some of the basic questions that interested a bank recently when it listened to ten agencies solicit its account. It sought to learn:

- What importance would the account have to the agency?
- What other accounts does the agency have? How big are they?
- What are the outstanding characteristics of the agency?
- How many employees has it?
- How many stockholders?
- Who are the four or five leading individuals who will work on your account and what are their specialties?
- What accounts has the agency lost or gained during the past twelve months or the past few years?
- What percentage of the agency's total billings does its largest account represent?
- What are the agency's total billings?
- What departments and facilities does the agency have?
- What research work sales promotion, marketing services, publicity, and public relations work does the agency supply with or without a charge?
- What branch offices does the agency have?
- How old is the agency?
- Has its growth kept pace with the growth of advertising during the past five years? If not, why not?

10. After listening to all the presentations, let a week, or perhaps two, elapse. Then concentrate on the finalists. Recheck your notes on them. Visit their offices to meet other personnel who will work your account.

Now you are ready for the final decision. The right choice can mean an important gain in sales and prestige. The wrong one can mean that your company's advertising will produce only mediocre results. END

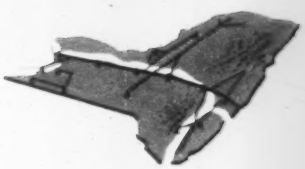
COME TO "UPSTATE, N.Y."

new market place of the world

Modern schools with excellent faculties help make Upstate, N.Y., a great place for families to raise their children. Here, you'll find some of the most complete and well planned educational facilities in the nation, from kindergarten to college. These schools provide industry and business with a large, stable supply of technicians and skilled workers.

In Upstate, N.Y., there's plenty of low-cost power, rich markets and superb transportation via rail, air, water or modern Thruway.

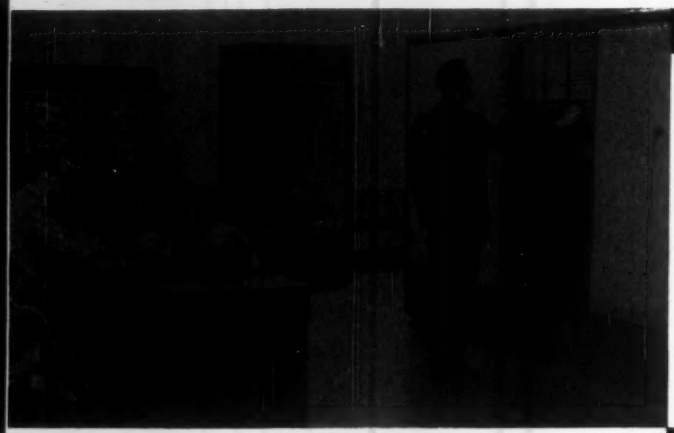
For confidential assistance, and specific information on available sites and buildings in Upstate, N.Y., write or phone the Director of Area Development, Niagara Mohawk, Dept. D-10, Syracuse 2, N.Y.



POWERED BY
NIAGARA
MOHAWK

NIAGARA MOHAWK

BURROUGHS ELECTRONIC COMPUTERS STAND SENTRY DUTY FOR YOU... GUIDE MISSILES, BOMBERS AND BUSINESSES, ALSO!

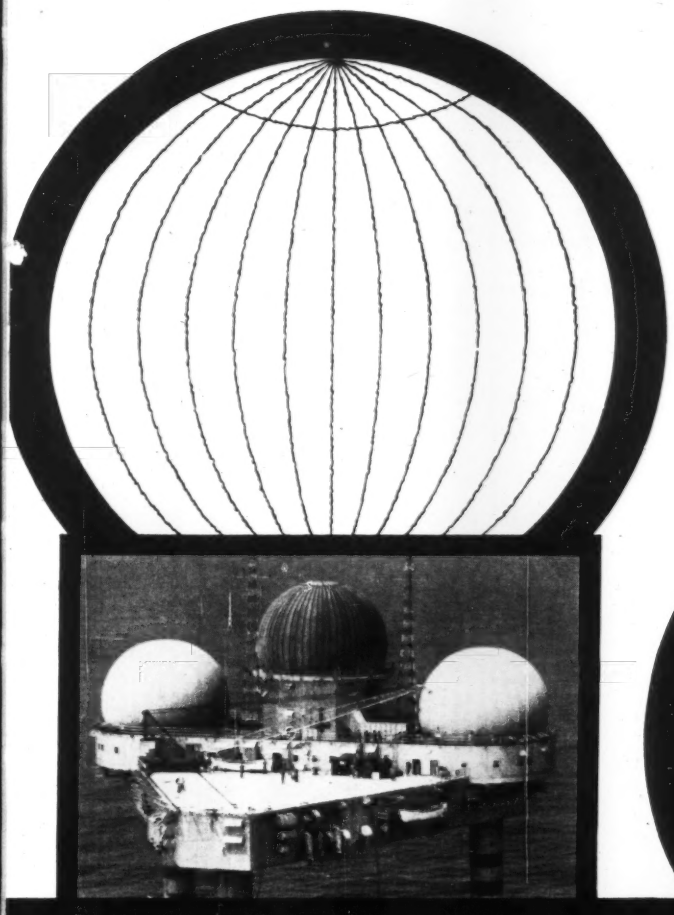


Burroughs Digital Computers Even in 'Texas Tower' Outposts

FIRM'S VITAL DATA PROCESSING ROLE IS MANY-SIDED

WASHINGTON, D.C.—Another vital link in defense. 'Texas Towers' now extend our SAGE defense system lonely miles off America's shores. Here, as well as from its chain of bases across the continental U.S., SAGE supersensitively searches for the faintest hint of airborne attack.

In these installations helping to defend 173 million Americans, the Burroughs electronic computers almost instantaneously compute and process radar data for alerting U.S. defense.



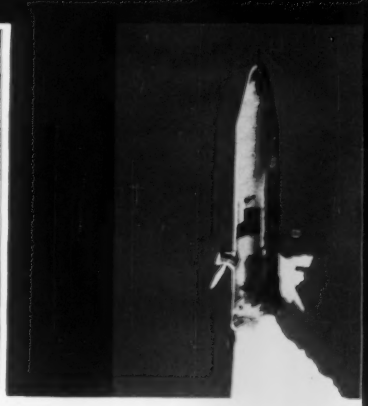
Meanwhile, in Cape Canaveral, giant 5,000-mile Atlas ICBM's blast off. Navigating them with undeviating reliability: Burroughs all-transistor electronic computers.

The scope of Burroughs military weapons systems is prodigious. It encompasses a broad range including super-intricate electronic missile guidance systems, electronic data processing for anti-airborne defense systems, new electrographic communications systems that record 30,000 characters a second, giant capacity computers miniaturized for manned aircraft.

Advances in 'Brains' for Defense, Business Go Hand in Hand

In the words of a Burroughs spokesman: "These tremendous advances in computation for military systems parallel developments of advanced electronic systems and equipment for civilian use. And vice versa. Through this cross-pollenization, Burroughs' achievements are recognized as having become outstanding in data processing for business and science as well as for defense."

In all, these programs and others—many of them top secret—involve the most sophisticated applications of electronics, electro-mechanics, optics, magnetics and other fields, the fruits of Burroughs 3,500-man research and development facilities. And they clearly reflect the firm's proved capabilities in precision production, in product reliability, in design and



Burroughs

Burroughs Corporation

"NEW DIMENSIONS / in electronics and data processing systems"

"I GET THAT GREAT-TO-BE-ALIVE FEELING . . . ALL OVER AGAIN . . . IN MY AMAZING NEW NIAGARA HEAT AND MASSAGE LEATHER CHAIR"

These are the words of Executive Vice President, U. V. Muscio, Fedders-Quigan Corporation, world's largest manufacturer of room air conditioners.

Says Mr. Muscio: "Almost from the minute I sat down in my new Niagara Cyclo-Massage® Reclining Chair . . . and turned on the heat and massage . . . I knew I was being treated to a new experience in relaxation. Now I am making daily use of my Niagara chair. Just a turn of the dial provides me with the soothing comfort and relief from tension that I need to keep alert during a strenuous day. Niagara has certainly made my work days more productive by giving me that great-to-be-alive feeling . . . all over again!"

EASES NERVOUS TENSION
HELPS INCREASE BLOOD CIRCULATION LOCALLY
ENCOURAGES DEEP, NATURAL SLEEP

The secret of Niagara's great range in bodily reactions is that you can regulate the flow of heat and massage action to your needs . . . as easily as you can regulate the flow of water from a faucet! On the other hand, the secret of Niagara's unparalleled effectiveness is that Niagara Cyclo-Massage® action is totally unlike the harsh, surface-pounding action of furniture with ordinary vibratory mechanisms. Only Niagara's exclusive Cyclo-Massage® action *radiates* . . . from head to toe . . . in criss-crossing waves of horizontal, vertical and circular motion . . . through the soft tissues of the body as well as bones and joints.

This is the action which, according to numerous clinical studies in leading institutions, helps relieve nervous and physical tension . . . increase blood circulation locally . . . revive flagging energies . . . induce deep, *drugless* sleep. For *free* and *full* information, just fill in and mail the coupon below.

CHAIRS COVERED IN LUXURIOUS LEATHER OR SUMPTUOUS UPHOLSTERY FABRICS

Niagara Cyclo-Massage® Reclining Lounge Chairs are now available in genuine leather in a wide range of lustrous and muted finishes in decorator-approved colors . . . or in exquisite upholstery fabrics. Other Niagara furniture: several distinctively designed Lounge Chairs . . . modern and traditional . . . a Chaise Lounge and a Glide-Out Sofa . . . is also certain to find a warm welcome in the most well-appointed setting.

Guaranteed by Good Housekeeping

THE PRICELESS GIFT— AN AID TO BETTER HEALTH!

NIAGARA THERAPY MFG. CORP.
Adamsville, Pa.

IN CANADA: Monarch Massage, Ltd., Fort Erie, Ont.

Hear about Niagara Cyclo-Massage® on ARTHUR GODFREY TIME, CBS Radio Network; the JACK PAAR SHOW, and TODAY, with Dave Garroway, NBC-TV; and Don McNeill's BREAKFAST CLUB. See your local paper for time and stations.

BEAUTIFUL FULL-COLOR BROCHURE illustrates Niagara's unique body conditioning furniture. For a FREE copy, mail coupon today . . . or visit the nearest Niagara showroom.

NIAGARA, Dept. DR-108, Adamsville, Pa.

Please mail FREE full-color brochure and full information on Niagara Cyclo-Massage® Furniture. No obligation.
(please print)

Name_____

Address _____

City_____ Zone____ State_____

Oversized and smartly designed on modern lines, the Niagara Chaise Lounge contains two built-in, automatically-timed Niagara Cyclo-Massage® units.
The Niagara Glide-Out Sofa, with two Cyclo-Massage® units, has a special mechanism for easy conversion to bed or sofa—a wonderful body-conditioner either way.
Provincial Reclining Chair, with three Cyclo-Massage® units, with delicately carved serpentine detailing, and a reclining position length that belies its petite upright appearance.

continued from page 54

without limit—as long as you get a marginal balance of profit.

As long as the gross income attributable to more advertising exceeds the extra cost, we should place no limit on advertising expenditures. If the budget is drawn up on this basis, it is easily defensible.

If every time we spend $1 on advertising, we get $1.10 in tangible results, we should continue advertising without limit, at least until we reach the point of diminishing returns. If we are spending $1 and getting back only 90 cents, advertising should be stopped, cut back, or revised—at least until we learn how to get back in the black.

Proving that there is a profit will not always be easy, of course. Products and sales methods vary. In some situations, results are immediately apparent—for example, the sales volume due to direct mail can be calculated. At the opposite end of the scale is the advertising that produces only indirect results.

Between these two limits are all sorts of variations. Results of food advertising are not too hard to identify, because food is purchased frequently and the consumer seldom stores it for long periods of time. Television sets and refrigerators, on the other hand, are much nearer the other end of the scale. The ultimate consumer quite possibly purchases them only about once in every six to ten years. Nevertheless, there are ways of exploring the problem.

Today we have the tools with which to measure most advertising programs effectively. I have prepared the series of tables shown below, which I hope will help to measure results and point the way to a better job of pre-planning.

At this point I should like to introduce a new concept into this field, to suggest a new type of tool—the laws of probability. To over-simplify: if the loyal customer is worth $1 a year to you, and if your market coverage and dealer loyalty are only 10 per cent, then by the law of averages you cannot afford to spend $1 to create this loyal customer. There is only a 10 per cent chance you will capitalize on his loyalty when he is ready to purchase a product of the kind that you manufacture.

What we want to do is carry our analysis up to Rung 9 of the "Ladder of Advertising Penetration" (see below). We seldom can get that far up, but all the other rungs can at least be partially explored and this exploration can be facilitated by the laws of probability.

Let us consider the following table. It outlines certain basic premises and known facts that are available from published sources—or which could be acquired by techniques of field research known to all. The hypothetical example is a company using a television program costing $2 million per year.

Cost of program for year	$2 million
No. of families in U.S.	44 million
No. of TV families in U.S.	27 million
No. tuned in (good rating system)	10 million
No. of families with one or more individuals who:	
Remember sponsor	8 million
Received favorable impression	5 million
Less those already impressed favorably prior to show	3 million
Increment of families reached who have been favorably impressed	2 million
Cost per family	$1.00

The next table involves the laws of

Ladder of Advertising Penetration

For Printed Media

- *Rung 1.* The number of people who have access to a magazine or newspaper (i.e., raw circulation figures). This is the lowest possible level.
- *Rung 2.* The number of people who have leafed through a particular magazine or newspaper to the extent that they qualify as readers according to the criteria used in the particular study.
- *Rung 3.* The "readers" who have actually seen the advertisement inserted in the publication under study.

For Radio and Television

- *Rung 1.* The ownership of radio and television sets.
- *Rung 2.* The sets in use at the time of the program under consideration.
- *Rung 3a.* The sets actually tuned to the program. (No one may be listening, but at least the set is turned on.)
- *Rung 3b.* Those listening to the program who also give some attention to the commercial.

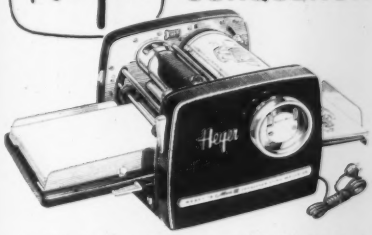
For Printed and Broadcast Media

- *Rung 4.* The share of audience that was reached by the message and gained from it some measurable impact or impression.
- *Rung 5.* The share of audience on whose minds the name of the advertiser or the trademark was impressed.
- *Rung 6.* The share of audience that associated some sort of message with that name or trademark. The message could be (a) favorable, (b) neutral, or (c) unfavorable. Again, it could be (a) the message the advertisement was intended to convey, (b) something similar to the intention, or (c) something entirely different from the intention.
- *Rung 7.* The impact lasted until the consumer was motivated to purchase the product.
- *Rung 8.* The impact was useful in that the audience representing the best potential market was influenced to purchase the *advertised* brand when the time came to buy the product.
- *Rung 9.* The percentage of the potential market motivated to the actual purchase was sufficiently great to justify the money spent in the advertising effort—i.e., the profit is equal to or in excess of the cost of delivering the advertising message.

NOW . . . in duplicating THE BEST COSTS THE LEAST

Heyer

NEW Model 76A Mark III CONQUEROR

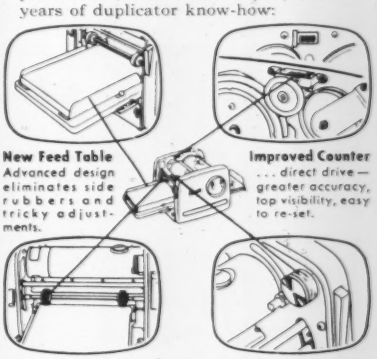


PUSH-BUTTON ELECTRIC SPIRIT DUPLICATOR WITH

Improved Features

AT LOWEST PRICES EVER

1493 Authorized Dealers across the U. S. A. and Canada offer these amazing new Conquerors . . . now better than ever with these important operating improvements, the result of Heyer's 55 years of duplicator know-how:



New Feed Table Advanced design eliminates side rubbers and tricky adjustments.

Improved Counter . . . direct drive — greater accuracy, top visibility, easy to re-set.

Adjustable Feed Wheels grip paper at outer edges, give positive performance.

Feed Tension Control assures non-skip feeding — thin papers to post cards.

Many other outstanding features such as Copy Positioner Control, Nylon Gears, Visible Fluid Supply, Sure Fluid Control (no pumps), and Automatic Start-Stop on electric Conquerors offer a combination that's unmatched. Don't confuse them with photocopy machines . . . Conqueror Duplicators print 110 clear, sharp copies *per minute* . . . in 1 to 5 colors *at once* . . . of anything typed, drawn or written on a spirit master . . . *at a fraction of a cent per copy!*

MODEL 70—Hand Operated with all features except electric drive $214.50*

MODEL 76A-Electric, Automatic Start-Stop (illustrated) $299.50*

MODEL 76B-Automatic Electric with 11" and 14" cylinder stop selector $324.50*

*Plus F.E.T. Prices slightly higher in Canada

The HEYER Corporation,
1848 S. Kostner Ave., Chicago 23, Ill.

Without obligation, please:

☐ Send Free Brochure on Heyer Mark III Conqueror Duplicators

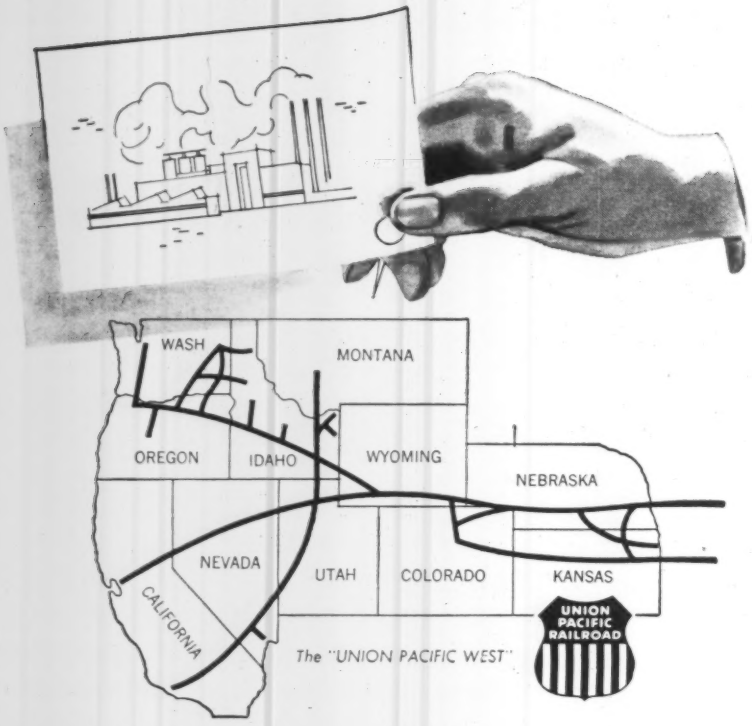
☐ Arrange Free Demonstration

NAME_____

COMPANY_____

ADDRESS_____

CITY_____ ZONE____ STATE_____



LET US HELP YOU PIN DOWN THAT NEW WESTERN PLANT

We realize that in selecting a plant site you have many factors to consider.

Transportation, of course, is of major importance and in the western territory served by Union Pacific you are assured of the finest in reliable freight service—and passenger transportation.

When it comes to specific information regarding western industrial properties, we are prepared to furnish, upon request, data pertinent to your requirements.

May we suggest that you contact your nearest Union Pacific office or get in touch with us direct. We will be pleased to cooperate fully.

INDUSTRIAL DEVELOPMENT DEPARTMENT

UNION PACIFIC RAILROAD

Omaha 2, Nebraska

probability. Let us assume that this company manufactures radio tubes for the renewal market, television sets, and refrigerators.

	Radio Tube	TV set	Refrigerator
Value of end product at factory door	$ .67	$175	$140
Probable purchase in any one year	3	1/7	1/10
Probable average chance of annual sales to the loyal customer	$2	$25	$14
Marginal balance of profit (assumed)	25%	10%	15%
Marginal balance from completely loyal customer	$ .50	$2.50	$2.10

Now let us put the two tables together. Let us deflate the theoretical marginal balance of profit by the known practical obstacles using the laws of probability:

1. Even the loyal customer will be limited by the nature of the stores in which he shops. Therefore, let us deflate this value to the percentage of market coverage.

2. There is the chance that the loyalty will be effective up to the point of requesting your particular brand or looking at it. To the extent that this does occur, the value must be proportionately deflated.

3. There is always the chance that the point-of-sale impact of competitive products or retail salesmanship will affect the loyalty, so we must deflate once more.

The following table is purely hypothetical, but it illustrates how the laws of probability can be applied:

	Radio tube	TV set	Refrigerator	Total
Maximum profit per loyal customer	$ .50	$2.50	$1.50	$4.50
Percentage of market coverage	80	40	60	
Residue of value	$ .40	$1.00	$ .90	$2.30
Percentage actually asking for brand	50	80	100	
Residue of value	$ .20	$ .80	$ .90	$1.90
Percentage purchasing brand	50	75	100	
Tangible return	$ .10	$ .60	$ .90	$1.60

To the extent that we can find practical values to put into an equation, we have a basis on which to recommend decisions. The following table is drawn up on the basis of a television show costing the advertiser $2 million a year, which is assumed to create 2 million loyal prospects for the brand:

Product	Return Total	Return Per $1 of expense
Radio tube alone	$ 200,000	$ .10
TV set alone	1,200,000	.60
Refrigerator alone	1,800,000	.90
Radio tube and TV set	1,400,000	.70
Radio tube and refrigerator	2,000,000	1.00
Refrigerator and TV	3,000,000	1.50
All three products	3,200,000	1.60

As I pointed out originally, I don't think any of us have any of these facts ready for use tomorrow morning. But neither will I admit that facts of this kind are unobtainable. Most of the world's progress has been made possible

by people who were ignorant enough not to know that something couldn't be done.

Admittedly, the job is not simple. If it were, we would probably be out doing these things instead of reading articles about them. But they can be done, if we take an aggressive and objective approach. Here are some of the things you can do to meet the challenge:

- Define your problem. What are you trying to accomplish?
- Set up some impartial body to evaluate the cost of attaining your objectives.
- Divide the cost by tangible results and get a cost per unit for the effective results obtained. If the profit from those results is not greater than the cost of obtaining them, let the marketing staff go back to management and say, "We shouldn't continue this type of program any longer." (You might be surprised at the results you get when you tell management that you feel a cut in the budget is necessary.) Give a good reason for the cut, too. Be courageous. Find a few areas that really justify a budget cut and earmark that money for *more* fact-finding to increase your profit still further.
- Start in some easy areas where quick measures are available.
- Set aside part of your budget for fact-finding.
- Put agencies and media men on notice that you intend to operate only on reliable data vouched for by impartial bodies. Encourage them to set aside part of their funds for gathering facts.
- Last, give your problems to people in your own company who have no ax to grind. Few people are capable of keeping score of their own progress. Get your work done, also, by people who have scientific, not necessarily artistic, temperaments.

Specifically, why not set up a task force with scheduled meetings to review facts and progress regularly and systematically? Insist that this task force include at least the advertising manager, the controller, and the market research manager. Others can and probably should be members of the team, but I think these three are absolute "musts." Other tangible contributions can be made by such people as the sales manager, the public relations manager, and the engineering manager.

In using these tools and this more objective approach, let us resolve on better appraisal of our activities. Let us have better advertising strategy, more logical themes, more intelligent selection of media. Perhaps more important than any of these things, let us resolve to get better and sharper tools. Let us resolve to be more attentive to the waste in advertising. Let us resolve to bring to the attention of management the potential profit in more efficient advertising. END

New! *Dependable Intercom with*

BUILT-IN COURTESY

Executone protects your privacy, never interrupts. Exclusive "Chime-Matic"® signalling announces all calls with a soft chime and signal light. Conversations are private and confidential, yet you can reply from across the room, if you wish.*

Executone Gives You More Working Minutes Per Hour!

- Information is exchanged instantly via Executone. Walking time becomes *working* time.
- Executone handles all *inside* calls—telephone lines are kept open for *outside* calls.
- Costly telephone "call backs" are reduced drastically. You get information from other departments while "on the phone"

Installations in every type of business prove that Executone pays for itself many times over! Write for more information.

Don't Walk... Talk!

Executone®

INTERCOM AND SOUND SYSTEMS

*U.S. Pat. No. 2,744,966

EXECUTONE, INC. Dept. R-2
415 Lexington Ave., New York 17, N. Y.

Without obligation, please send me full data on Executone Intercom. I am particularly interested in:

- ☐ Inter-Office Communication
- ☐ Intra-Plant Communication
- ☐ Switchboard Relief
- ☐ Locating Personnel

*Name*_____

*Firm*_____

*Address*_____ *City*_____

In Canada—*331 Bartlett Ave., Toronto*

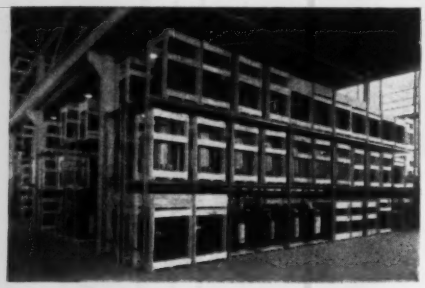
another important installation

American

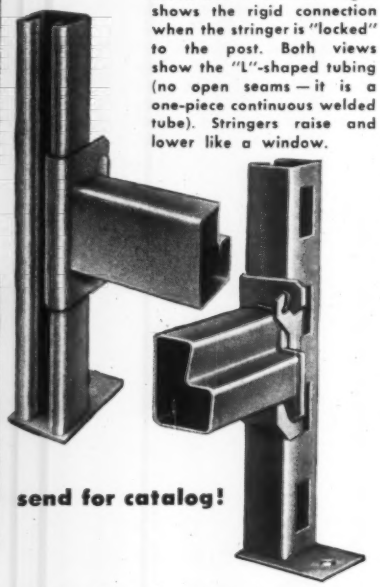
Slide-n-Lock adjustable

STORAGE RACKS

American Slide-n-Lock Rack installation, Westinghouse Electric Corp. Warehouse, Cincinnati, Ohio



View on left shows the smooth line construction of the aisle side of post and stringer. There are no protruding edges to create hazards. View at right shows the rigid connection when the stringer is "locked" to the post. Both views show the "L"-shaped tubing (no open seams — it is a one-piece continuous welded tube). Stringers raise and lower like a window.



send for catalog!

Regardless of your storage problem, you can always depend on American Storage Racks for the most economical and most efficient handling of live storage. American Racks are quality built . . . built to withstand rough, tough usage. Before you decide on any type of rack, investigate the merits of the American Slide-n-Lock Rack . . . a rack tailored to your needs. Here are a few of its many features . . . Stronger and heavier POSTS for greater resistance to shock and abuse . . . "L"-shaped — no open seam — STRINGERS (see copy above) . . . greater aisle safety (see copy above). Double cross bracing — material always in tension and not compression — means greater rigidity. Rack can be adjusted to floor irregularities with turnbuckles.

over 800 different sizes and capacities from 5 basic parts

NO BOLTS NO WELDING IMMEDIATE DELIVERY

AMERICAN METAL PRODUCTS COMPANY

STORAGE RACK DIVISION

5959 Linsdale Ave. amp Detroit 4, Michigan

SETTING THE BUDGET

continued from page 55

planned presentations of facts. A budget does not need to be developed through guesswork.

Basic to an intelligent approach is the concept that selling consists of both direct and indirect communication between the seller and the buyer. The salesman tells the buyer about the product and its advantages in face-to-face contact. Advertising, through a wide range of media and techniques, attempts to do the same thing indirectly, addressing a mass audience rather than an individual. It cuts down the time the salesman must spend and bridges the gap between his calls by preselling the product or at least making buyers more receptive to it.

If advertising is considered in this light, it is possible to develop a budget that will suit specific company needs. One method of doing this is outlined in the Industrial Advertising Research Institute's report, *How to Establish the Budget for Advertising Industrial Products*, which embodies the findings of a study conducted for the Institute by Barrington Associates, Inc., of New York. Recommendations are based on analysis of methods used by 64 manufacturing companies that sell to industry, a group selected after preliminary screening of about 500 companies.

In this report, the Institute recommends that budgets be based upon the "task method," which is defined as follows:

> With no predetermined cost limit in mind, a professional or purely objective analysis of the sales and general needs of the business is made. Based on research and this analysis, clearly defined advertising objectives are established. These objectives may relate to individual products, product groups, market segments, or factors bearing on the general welfare of the company. The best means of accomplishing these objectives are determined, and become the over-all company program. The cost of individual tasks and the total company program is then balanced with company needs and ability to pay for them.

In the task method it is essential that the basic approach to the budget be made without any figures in mind. The first thing to do is to determine what is needed. This means that a great many questions must be asked, policy decisions made, and both internal and external research considered.

After needs are established, objectives can be determined. These objectives serve two purposes. In the first place, they provide sound reasons for every item in the budget. In the second place, they make possible realistic review at any time: the budget can be judged by the extent to which the stated

Short cuts with Recordak Microfilming

Latest report on how this low-cost photographic process is simplifying routines for more than 100 different types of business . . . thousands of concerns

MAKES AUDITING EASIER

NEW YORK, N. Y.

The toll tickets which operators at The New York Telephone Company make out for long-distance calls are sometimes needed in two places at the same time. The company's Peg Count Bureau uses the tickets to analyze telephone traffic volume for management. And the accounting department must have them to bill subscribers.

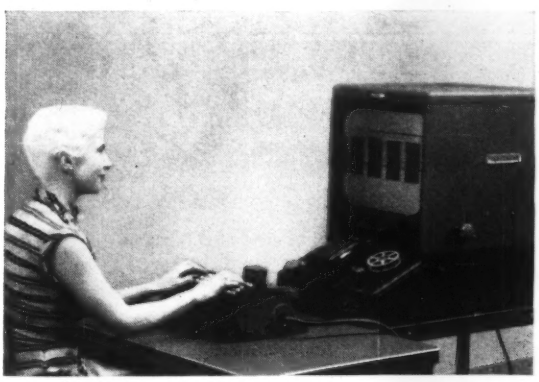
No dilemma, now. Running the tickets through a Recordak Microfilmer (which takes up to 400 pictures per minute) lets the Peg Count Bureau release tickets promptly, ending billing delays. And, equally important, the Bureau can now make its audit studies more efficiently from the microfilms projected in Recordak Film Readers. No more peak periods and pressing deadlines.

How a similar short cut can work for you

Businesses of every type are using Recordak Microfilming to audit and analyze their accounts without interrupting daily posting operations. In branch offices, for example, accounts are "frozen" as of any date and Recordak Microfilm copies sent to centralized audit in home office. This cuts need for costly field audits. And protection is increased automatically by filing film record in a separate location. Often, this cuts insurance costs.

Write for free booklet showing how Recordak Microfilming serves companies like yours. Or have a Recordak Systems Man call. No obligation whatsoever! *"Recordak" is a trademark*

Recordak Film Reader enlarges items sharp and clear



RECORDAK

(Subsidiary of Eastman Kodak Company)

originator of modern microfilming—
now in its 31st year

MAIL COUPON TODAY

RECORDAK CORPORATION MM-10
415 Madison Avenue, New York 17, N. Y.

☐ Send free copy of "Short Cuts that Save Millions."
☐ Have local Recordak Systems Man phone for appointment.

Name_____ Position_____

Company_____

Type of Business_____

Street_____

City_____ State_____

objectives are actually being attained.

With the establishment of needs and objectives, preliminary budget figures can be developed. Then this "ideal" budget can be examined in the light of the company's ability to pay and cut if necessary. And because the company knows why it is spending a given amount for each item, the trimming and shaping can be done intelligently. The budget need not be cut with a meat ax.

The report, *How to Establish the Budget for Advertising Industrial Products*, lists the questions that should be asked in establishing needs and suggests sources of the answers. And it is important to note that it points to the basic responsibility of top management to provide critical information on which the advertising budget can be based.

Thus, Step I in the task method of budgeting is to "review broad company aims and policies," which means that the man who draws up the budget must have information which can be supplied only by top management. Following are the questions that can be answered only by the president:

Checklist of Company Aims and Policies

Growth Objectives

Does the company wish to hold or improve its position in its industry? If improvement is desired, how much and how fast? How much volume could the company handle in present plants? Are there any plans for plant expansion? Contraction? What obstacles to growth must be overcome?

Product Line

Is it intended to expand or contract the product line? If so, with what basic objectives?

a. To get more business in total?
b. To spread the risk of seasonal fluctuations or depressions in some fields?
c. To offset declines in markets for present products?
d. To substitute profitable for unprofitable products?
e. Which product lines should be emphasized?

Market and Sales Development

Does the company wish to limit itself to markets presently served, or does it wish to tap new markets? Why?

Is any basic change contemplated in:

a. Methods of selling?
b. Channels of distribution?
c. Sales organization structure?
d. Emphasis on export markets?

Financial Factors

Is it the company's desire to follow a conservative financial program to attain gradual growth—or does it wish to invest money to attain more rapid growth?

Is it the company's aim to grow by plowing back money, or to pay dividends liberally?

The advertising manager needs information from the sales department also. Step II in the task method is to "ascertain specific sales objectives, sales problems and sales plans."

Information to Obtain from Sales Department

1. What is to be sold (products)?

a. What are the changes, if any, in the design, sizes, content, make-up, or packaging of our present products? Any new uses for our products?
b. Are any products to be eliminated from our lines?
c. Are any new products to be added? If so, obtain details as to design, markets, uses, special features, competitive advantages, prices, timing.

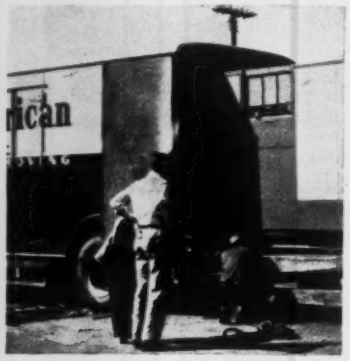
2. What is the volume to be sold (sales forecasts and goals)?

a. How many units of each product (or product group)? If new product, when and in what volume will product be available for delivery?
b. What are seasonal and geographical patterns?
c. What will this mean in dollar volume?
d. In profits (by products)?

3. To whom and where is it to be sold (markets)?

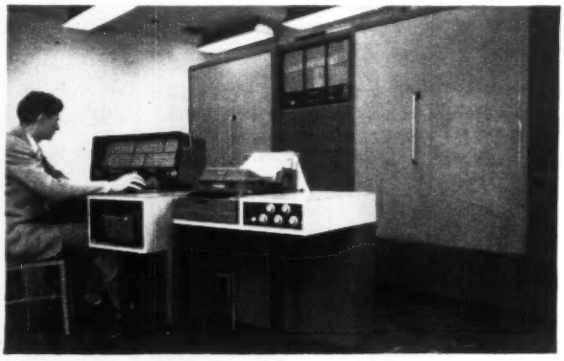
a. What are the sales goals by industries (or other customer classes) for each of the products or product groups? What participation in each market does the company hope to achieve?
b. What are our goals in respect to export markets?
c. In what markets are our products best

save time and money... ship via

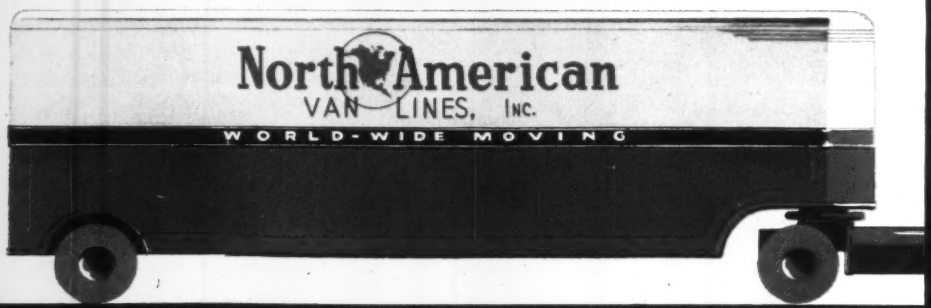


"DATATRONS" CROSS U.S. IN NORTH AMERICAN VANS

High-speed electronic computers made by Electro-Data Division, Burroughs Corp., travel door to door uncrated in smooth-riding North American vans. Left, unit being loaded at Pasadena plant. Right, "Datatron" ready to go to work. (North American recently moved entire Electro-Data Division to new 40,000 sq. ft. plant in California — another widely used industrial service offered by the world's leading van line!)



"America on the Go"
Hear Alex Dreier's
Salute to Industry—
Every Sunday Evening, 6:05 P.M.
(New York Time) NBC-Monitor



DOOR-TO-DOOR DELIVERY... UNCRATED... HIGH-VALUE PRODUCTS... EXHIBIT DISPLAYS

established? In what markets are they least well established?

d. In terms of numbers of actual and potential customers, which of our markets are expanding? Which are static? Which are decreasing?

e. Has research shown any possible new markets for any of our products?

f. What are the needs, buying habits, preferences, sales resistances of our customers?

g. What are the job functions of the people to be sold?

4. What are conditions in our industry and markets?

a. How are general economic conditions affecting our industry and company?

b. Are our markets expanding or declining?

c. What are inventory conditions among jobbers, distributors, users, and so on?

d. Are price trends favorable or unfavorable?

e. What are trends in other industries that affect us?

f. What is the competitive situation?

5. How is it to be sold (sales plans)?

a. Any changes in prices, terms, discounts, allowances, guarantees, and so on?

b. Any changes in the size and character of, or tasks assigned to, the field sales force?

c. Any changes in our policies relative to distribution?

d. Any new ideas that we want to get across to customers?

e. What will be the time schedule on new products coming out in the budget period?

f. What are the appeals, the stories to be told, the advantages the new products offer to the customer?

g. What suggestions do salesmen, distributors, or dealers have to offer?

6. In the light of the foregoing information, what suggestions and recommendations has the sales department to offer?

a. What is indicated in terms of relative advertising emphasis by product lines and markets?

b. What is suggested as to copy strategy? Media?

c. How, specifically, can advertising and promotion be more helpful to company salesmen next year?

d. What are the sales manager's ideas regarding the merchandising of the advertising to company salesmen, agents, distributors, and dealers?

e. In the opinion of the sales manager, how should all this affect the total advertising budget?

The following steps are outlined and discussed in the Institute report and detailed procedures are given for each:

- *Step III:* Obtain research data on markets and audience, competition, effectiveness of past advertising, and general economic outlook.
- *Step IV:* Analyze the information obtained in previous steps.
- *Step V:* Formulate the advertising program and budget.
- *Step VI:* Review the proposed program and its budget with sales department.
- *Step VII:* Present program and budget to top management.

Down-the-line documentation

If these steps are followed in developing the advertising budget, the budget presentation will have what is, perhaps, the most important ingredient—documentation. Each item in the budget is thoroughly documented—not by just the advertising manager, but by top management, by the sales department, and by facts and figures arrived at from various sources.

In one company, the advertising budget was quadrupled in a two-year period on the basis of a documented procedure like this. In another company it was almost doubled in a single year.

The method is not, however, considered valuable because it has led to increased budgets. In fact, the task method may at times result in budget cuts. Money alone is not the gage of its value. Its real worth is that it provides a logical method of arriving at the figures. As one company president looked at the checklist of company aims and policies, he said: "For the first time I've got a good, clear picture of the decisions I have to make and the questions I have to answer as president of this company." END

North American Van – UNCRATED!

DOUBLE-CHECK THESE ADVANTAGES:

- **Eliminates costly crating, uncrating.**
- **Saves disassembly and reassembly time.**
- **Door-to-door delivery; no drayage cost.**
- **Proved gentlest in Impact-O-Graph tests.***
- **Prompt pickup, fastest service anywhere.**

*Impact-O-Graphs placed with products shipped via North American van showed far less shock and jar than other methods of transportation. Coupon brings report of findings.

Phone your local North American Van Lines Agent now . . .

He's listed in the Yellow Pages under "Movers." Or send coupon below for details of High-Value Products and other North American specialized industrial services, and "Wife-Approved" moves for transferred personnel. North American Van Lines, Inc., World Headquarters, Fort Wayne, Ind., North American Van Lines Canada, Ltd., Pickering, Ont.

Clip this Coupon!

North American VAN LINES, Inc. WORLD-WIDE MOVING

North American Van Lines, Inc.
World Headquarters, Dept. DR-108, Ft. Wayne 1, Ind.

Without obligation send me the report on Impact-O-Graph tests and booklets indicated below.

☐ Exhibit Displays ☐ High-Value Products
☐ Transferred Personnel ☐ New Products Service

Name.....

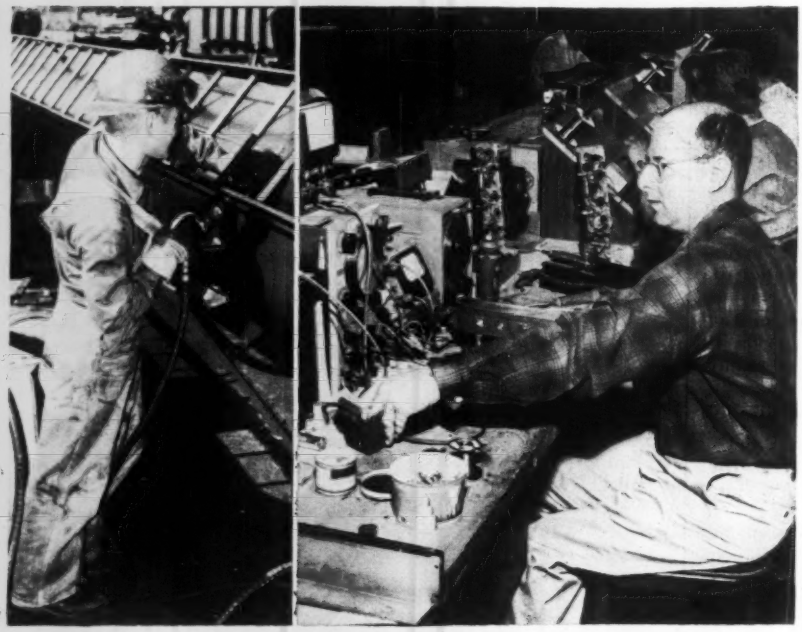
Company.....

Address.....

City..... Zone..... State.....

. RELOCATED OFFICES AND LABORATORIES

Mississippi
means business



a full day's work
for a good day's pay

Many new industrial enterprises in Mississippi quickly discover there is an extra operating profit in the willing, intelligent and adaptable workers they recruit down here. Industrial jobs in Mississippi have increased at the rate of 125 per week since 1950. And new plant facilities have been constructed at the rate of one each week during the same period. Our state is creating a growing reservoir of trained and loyal workers through its vocational school program which has more than 94,000 students enrolled each year. Come to Mississippi soon for business or for travel.

Stake your future in growing Mississippi

Executives are invited to write on their letterhead for beautiful full-color brochure describing the modern, exciting Mississippi of today. Address your request to Mississippi Agricultural and Industrial Board, Jackson, Mississippi.

IT'S MUTUAL CONFIDENCE

continued from page 56

advertising, sales promotion, publicity, and so on—is not easily definable. The amount of service a client gets from an agency could be spelled out in terms of number of hours of conferences, or number of trips through the clients' plants, or number of research contacts made with customers, but the results cannot be prescribed. It is the ability of the people in the client company and the agency, their clear understanding of objectives, and their confidence in each other that determine what the client will get for his money.

As a case in point, let's take one of the campaigns our agency is producing—a corporate campaign for the Rockwell Manufacturing Company, called "Rockwell Report." This campaign, an all-copy series appearing under the byline of W. F. Rockwell, president of the company, has had excellent readership ratings.

How did the idea arise? How are the advertisements put together? Why is the campaign successful?

Years ago the client and the agency put down on paper exactly what all agreed such a campaign should attempt to accomplish, and these objectives suggested the subject matter and format of the campaign. Newsy facts about the company and the company's management philosophies predominate in the copy.

Such a campaign depends on good contact between the agency and the client. There are frequent meetings of the agency staff and the Rockwell advertising management, sales management, and top executives. Before the copy is written it is talked out with Mr. Rockwell and his associates. Ideas come from all over the client company and all over the agency. Agency representatives attend the Rockwell annual management meeting, which lays bare the operations of the company for the top personnel to examine. These meetings generate a great deal of advertising copy.

Many other agencies can no doubt produce excellent advertisements of this type, but only if there is free exchange of ideas with the client, complete mutual trust, and a paramount desire on the part of everyone concerned to produce effective advertising.

What the contract provides

Of course, the client company must understand the agency's charges. It needs to know, especially, what services the agency will provide for the commissions it receives on space or time. In many cases, property rights and the method of termination, should that ever occur, are best spelled out. But that's

about all a contract or a letter of agreement can accomplish. From that point on, the relationship becomes a highly individual matter.

Many advertising agencies are equipped to provide dozens of services —copy, layout, media selection, pre- and post-testing of advertising copy, radio and television programming and commercials, sales promotion material, point-of-sale exhibits, movies, publicity, sales presentations, complete sales meetings, product testing, and market analysis. But all clients do not want or need all of them, and among the clients who depend upon their agencies for all or most of them, methods of operation and the extent to which the various services are provided differ so much that the same pattern may not apply for two clients of the same agency.

For example, about half our clients depend upon us for some publicity assistance, but the assistance ranges all the way from assuming complete responsibility for public relations to merely providing simple product releases or preparing speeches. We seldom have a dispute on compensation when we have an understanding of what we are to do, with whom, and where our responsibility starts and ends. Since that changes from job to job, and from year to year on similar jobs, the key is always the personal relationships of the people in the client and the agency organizations.

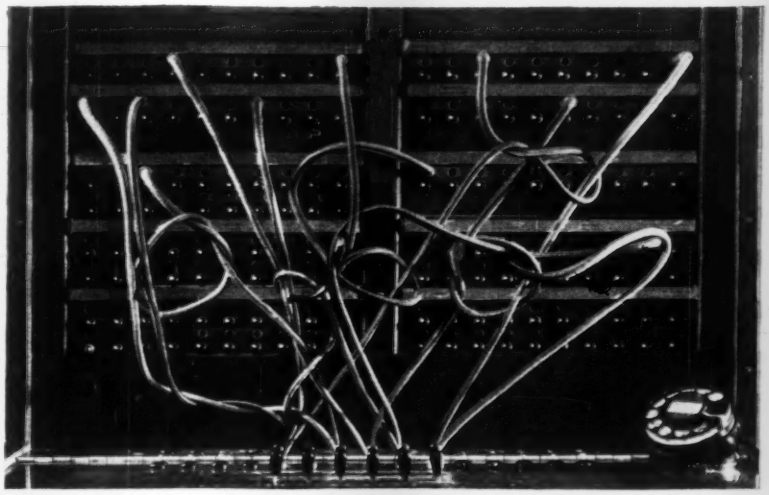
Meshing the gears

The degree to which an advertising agency is made a full partner in the marketing plans of the client also has a great deal to do with the success of the relationship. A company that does not bring its agency into its marketing management confidence and put it to work on something more than jingle writing or advertisement preparation is obviously short-changing itself. If the agency is not to be trusted or not of management stature, it ought to be replaced. It shouldn't be ignored.

Why is teamwork at the planning stage often missing? Usually, it is because the advertising department of the client company is not itself in the confidence of marketing management. Sometimes it is because the agency slips into the habits of the past and neglects to ask for a place at the planning table. But, in either event, it isn't something that a document will cure. The situation can be ended (or avoided) only if the people involved are of the right caliber, and the client group and the agency group recognize each other's importance and respect each other's abilities.

When the client-agency relationship is thought of as a "buyer-supplier" arrangement, it is almost certain to be defective. The agency is not, it is true, in the position of a physician, but a

YOUR COMMUNICATION PROBLEM IS INTERNAL!



...and DUKANE can solve it

Instant communication by DUKANE saves time and steps. DUKANE provides dependable intercom, private automatic telephone, paging, emergency alarm and evacuation, and background music facilities. DUKANE systems may be used separately or in combination, for complete flexibility and versatility. DUKANE'S communication systems are custom-engineered from mass-produced components—give you the most economical combination for your individual communication needs.

ONE SYSTEM...ONE MANUFACTURER...ONE RESPONSIBILITY... GIVES YOU

- emergency evacuation
- time and work-break signals
- complete intercommunication
- background music
- private telephones
- inspection control

Clip and mail the coupon today, for additional information on how DUKANE can solve your communication problem.

DuKane

Find Your Nearest Distributor In The "Yellow Pages"

DuKane Corporation, Dept. DR-108s
St. Charles, Illinois

Send me information on DuKane systems for better business management.

Name_____

Company_____

Address_____

City & State_____

DuKane sound systems are installed and serviced by a Coast-to-Coast network of more than 300 engineering distributors

(Advertisement)

DEPRECIATION METHOD ON OLDER BUILDINGS OFFERS TAX ADVANTAGE

A corporation bought a prime office building that was several years old and called in Marshall and Stevens to discuss the application of appraisal techniques, to determine the best applicable legitimate depreciation procedures. By appraisal of various component parts which made up the structure, a series of basic figures was established and depreciation applied separately to each. In this manner more rapid depreciation proved allowable on certain less durable components, and the resulting write-off in this instance will amount to about 70% in the first half of the building's estimated remaining life. This application of the services of a recognized appraisal firm can result in tangible, immediate tax advantages in many cases.

APPRAISALS FOR SPECIFIC PURPOSES

The foregoing is but one of many applications in which appraisals and valuation survey procedures prove their immense value. Costly time in tax matters and in business negotiations can be eased by anticipating the need for and ordering a qualified appraisal before the need arises.

Marshall and Stevens, experienced appraisers, are qualified to analyze your particular valuation problems, and prepare appraisals for the following purposes: fair market value, fair rental value, mergers, purchase and sales surveys, refinancing, insurance, proof of loss, property ledger tie-in, tax accounting, tax assessment; income, inheritance, gift and catastrophe damage tax claims.

The informative booklet "Purposes of Appraisals" is yours for the asking. Write Marshall and Stevens, 420 Lexington Ave., Dept. 243, New York 17, New York.

An international appraisal company, Marshall and Stevens offers local personalized service. Offices in Chicago, Cincinnati, Dallas, Denver, Detroit, Honolulu, T.H., Houston, Los Angeles, Minneapolis, New York, Philadelphia, Phoenix, Richmond, St. Louis, San Francisco, Vancouver, B.C.

Understanding Advertising: A Guide for Management

1. Advertising is more of an art than a science. Its results cannot be predicted scientifically. Its methodology cannot be based on strict formulas.

2. If your own background has been primarily in engineering, science, law, or finance, do not look for the same precision, the same type of quotable precedent, or a mental approach identical with your own in the advertising people you work with.

3. Be sure the man in charge of your advertising has a title, salary, and place in your hierarchy commensurate with the importance of your advertising investment. Trust him, respect his judgment, and hold him responsible. Don't consider him mere liaison between you and your advertising agency.

4. Have an equal trust and respect for your advertising agency. If you don't, do something about it. Don't harbor doubts about its competence or method of charging you. Have an understanding with your agency based on facts—about your business and about theirs—brought out into the open.

5. Don't let your competitors make your advertising decisions for you—make your own. Don't advertise just because the competition does. Don't try to estimate how much it spends so you can spend the same. Approach your advertising affirmatively in terms of *your* needs, *your* problems, and in terms of the sales help advertising can give *you*.

6. Don't make your advertising department a dumping ground for expenses that don't legitimately belong there—like the company picnic, charitable contributions, salesmen's calling cards, sales convention expenses, stationery used outside the advertising department, and so on.

7. Ethics in advertising reflect the standards of business as a whole, and any judgment must be individual and particular. Advertising by its nature performs in public and can't cover up its sins—which are usually in the realm of taste. When it offends in this area, you share in the blame, just as you accept the praise for a job well done. It's your money, your advertising, your responsibility.

8. Don't accept as typical the picture of the advertising man as he is portrayed by the current crop of novels, plays, and TV dramas about Madison Avenue. Anyone who has ever attended a gathering of members of the Association of National Advertisers or the American Association of Advertising Agencies knows that advertising men and women are substantial business people like yourself. If in the creative areas of advertising there are some off-beat characters, be grateful. Real creativity is needed enough to put up with their idiosyncrasies.

9. Select an agency because of merit—not because of a friend or relation. Leave your relatives out of your advertising program unless they measure up competently. Don't use your advertising department or your agency as a place to find a spot for good old Jim. Furthermore, don't allow your wife's opinion to decide whether your advertising is good or not.

10. Don't *spend* money on advertising—*invest* money in it. Use it to build an image for your product or company that will also stand you in good stead in attracting good personnel, create community respect, attract investors.

—ELDRIDGE PETERSON

parallel does exist. When you go to your doctor, you do not usually think of him as a man with medicine to sell. You employ him to advise you on your health, and at times, to perform technical services to keep you well or cure you. If an agency thinks of itself as a supplier, it cannot be completely objective, and it runs the risk of losing the client's respect. If a client isolates itself from the agency by putting up a barrier of buyer-thinking, it cannot use its agency's objectivity.

Ideal client-agency relationships start with an atmosphere, an attitude of "let's sit down together and act like one single organization with a joint problem to solve." Good client-agency relationships produce advertising and sales promotion that cannot be attributed to a single individual. Good campaigns are more than good headlines and, for that matter, more than good advertisements or good commercials, and many people in both company and agency should contribute to the whole. END

C. E. Inglish, General Freight Agent, Oklahoma City

There's room for you in
ROCK ISLAND COUNTRY—
for example

OKLAHOMA CITY

. . . where business expands and profits. Twenty-two and a half million people make up the eight-state southwest market, and practically in the center of this rich, growing area is Oklahoma City. If you are thinking about building in this part of the country, consider Oklahoma City and the very choice 224-acre Rock Island Industrial Park just five miles west of the center of town.

This property, as Rock Island's C. E. Inglish, above, can show you, is ideal for industrial use. Zoned for heavy and light industry, it is level, well-drained, and has a good foundation. By car the area is an easy 10 minutes from downtown and by the Rock Island it is within fast, easy reach of the Gulf, major midwestern and north central markets, and, by connecting lines, the vast West Coast.

Mr. Inglish will gladly arrange a tour of the area for you. He can provide you with complete data on labor, utilities, water, taxation and other vital information; he'll show you proposed lead track plans that will assure you efficient plant-side rail service.

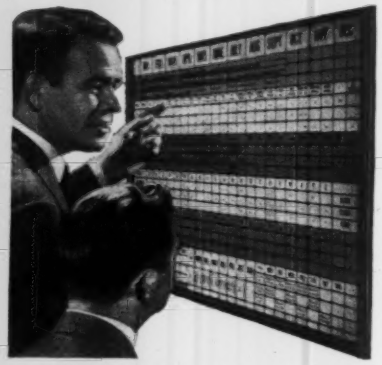
Mr. Inglish and his staff are typical of Rock Island specialized personnel who helped locate 377 industrial installations along Rock Island tracks during 1957 – a total investment by private industry of $404 million. Write, wire or phone in confidence to:

Industrial Department 104

ROCK ISLAND LINES

La Salle Street Station, Chicago 5, Illinois

You Get Things Done With Boardmaster Visual Control



☆ Gives Graphic Picture of Your Operations—Spotlighted by Color
☆ Facts at a glance—Saves Time, Saves Money, Prevents Errors
☆ Simple to operate — Type or Write on Cards, Snap in Grooves
☆ Ideal for Production, Traffic, Inventory, Scheduling, Sales, Etc.
☆ Made of Metal. Compact and Attractive. Over 300,000 in use.

Complete price **$49.50** including cards

FREE 24-PAGE BOOKLET NO. D-300 Without Obligation

Write for Your Copy Today

GRAPHIC SYSTEMS

55 West 42nd Street • New York 36, N. Y.

TEL-A-STORY COMMANDS ATTENTION!

Gives Your Product A Colorful Moving Message That Sells

DRAWS CONVENTION CROWDS . . . PEPS UP POINT OF SALE . . . STIMULATES SALES MEETINGS

The Tel-A-Story Automatic Projector will sell your product using twelve 35mm or 2" x 2" square transparencies on a 156 sq. in. picture screen. Copy changes automatically every six seconds. Economical to own and use. Ideal for any type product or service.

Write Dept. J for illustrated brochure and prices

TEL-A-STORY, INC.
523 Main Street, Davenport, Iowa

YOUR BOOK CAN BE PUBLISHED!

Our high royalty—low subsidy complete program can help you join Comet's list of widely recognized and successful authors. Send for **FREE** copy of *How To Publish Your Book.*

COMET PRESS BOOKS
Dept. DR-10, 200 Varick St., N.Y.14

WILL YOU SMOKE MY NEW KIND OF PIPE 30 Days at My Risk?

New principle that contradicts every idea you've ever had about pipe smoking. **I guarantee it** to smoke cool and mild hour after hour, day after day, without rest, without bite, bitterness or sludge. Prove it to yourself. Smoke a new CAREY PIPE without a cent of risk on your part. Send name now for **free facts.** No obligation. Write: **E. A. CAREY, 1920 Sunnyside Ave., Dept. 3-L, Chicago 40, Illinois**

continued from page 57

costs show evidence of poor buying practices, improper or lack of competitive bidding, nonstandard prices, and so on.

Now let me elaborate a bit on the three principles for a happy client-agency relationship outlined at the beginning of this article.

To do a good job, an agency must be taken into the client's confidence and be given all of the information necessary to do its job. As a full partner, it rates that much help. Today a great deal of the information that some companies think should be highly guarded even from their agencies is information that the competition can get if it really tries. Besides, much information becomes outdated very quickly. In my organization, every sales report that I get goes to our agency at the time it comes to me.

As for point two: We believe in giving the agency the basic responsibility for the creative advertising job—though we can point to many instances where some of the best ideas have been developed jointly, and to some good ideas that originated in our own department. Our agency is quite willing to recognize that both partners in the relationship can make important contributions to the common good in that area.

Put it in writing

As for putting on paper an agreement with our agency, our arrangement is spelled out in a contract some fifteen pages long. Actually, four companies are involved in our agency relationship, and each company has a somewhat similar arrangement.

While many advertisers do not have formal contracts with their agencies or, at best, have an informal letter of agreement, we have found it advisable to have a complete, detailed agreement for the guidance of our operating personnel and the auditors of the parent company.

Where there is a written agreement, certain basic relationships between client and agency must be clarified. First of all, of course, is a statement of how the agency is to be compensated—which will mainly concern charges for services over and above the obvious ones for which the agency receives its 15 per cent from the media in which it places the advertising. Usually, the written agreement will also cover what services the agency is to perform.

Another standard part of a written agreement usually concerns itself with what happens if the agency relationship terminates—what happens to advertising during the period of notice, who owns what in the way of ideas, completed advertising, advertisements scheduled but yet to appear, and so on.

In each instance, of course, the client and the agency can put on paper whatever either side would like to have clarified in view of the unique problems that exist, whether contracts generally cover such problems or not. In general, the purpose of the written agreement is not so much to bind either party for legal purposes as to prevent misunderstandings and arguments.

Even where formal contracts have been executed, however, differences of opinion do arise, on terms, agency commissions, prices, areas of responsibility, and similar questions. These situations must be handled promptly by negotiation or they result in mistrust and general dissatisfaction. Agency and client must review their relationship frequently and frankly to keep it from becoming a marriage of convenience and habit in which nobody is really happy.

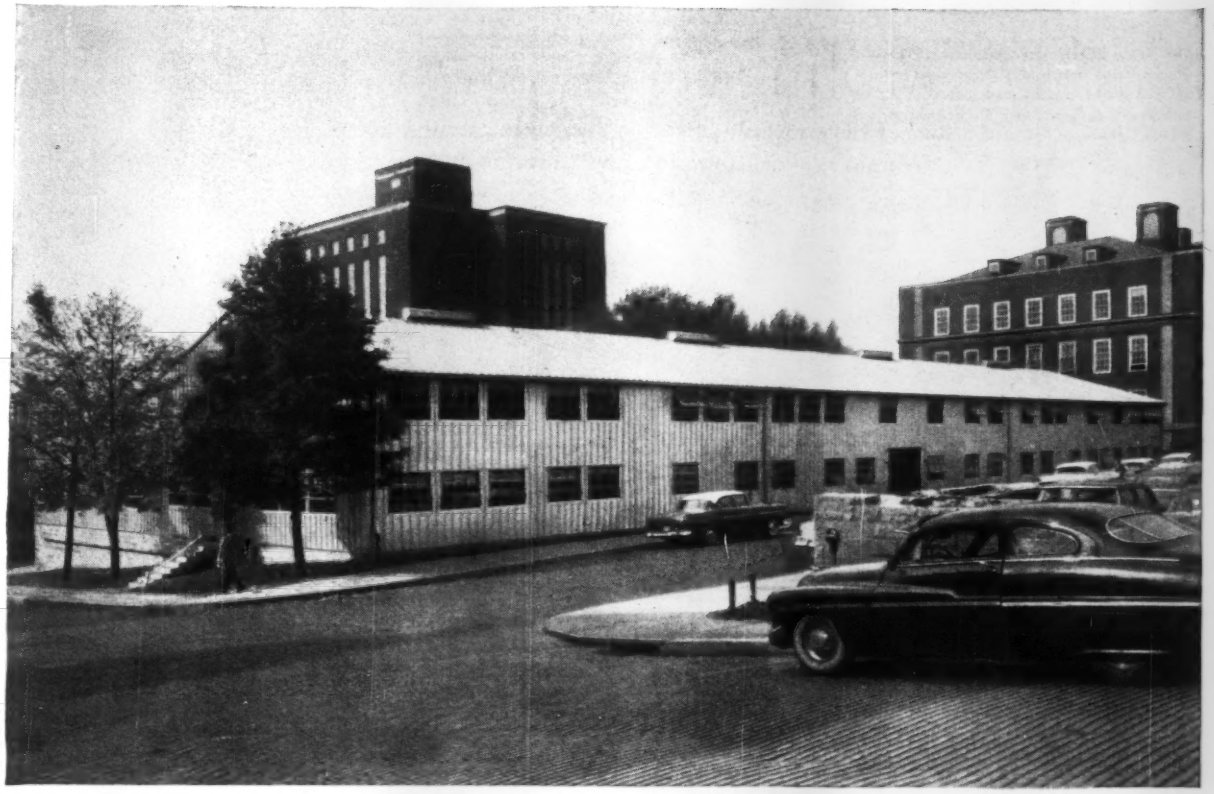
A growing job

Much of what I have said about the development of a more mature client-agency relationship during the past quarter century can be summarized in a short resume of what has happened during these years to one individual—the advertising manager.

His stature has increased through these years and should continue to increase. But as it increases, his responsibility also grows, and it does not necessarily follow that every advertising manager will be able to live up to the opportunities that face him. He must accept responsibility and enjoy management's confidence.

The status of the advertising manager, now frequently called the "advertising director" or the "vice president in charge of advertising," has risen in proportion to the increased amounts of money administered under his direction and the increased importance of advertising today. So has his salary.

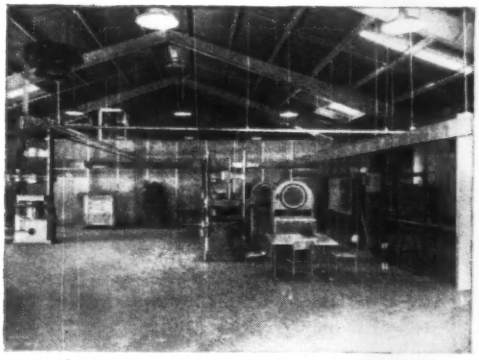
The top advertising executive, from here on, faces both a danger and an opportunity as the "marketing concept," about which we hear so much these days, becomes more prevalent. In many companies, the various components of marketing will be integrated, and responsibility for sales, advertising, sales promotion, market research, and public relations will come under one head. In this situation, the advertising director may find himself relegated to the spot he occupied ten years ago as a subordinate liaison man. On the other hand, he can accept the marketing concept trend the way many advertising agencies are doing and develop into a logical candidate for the top marketing assignment—providing, of course, that he has the capacity to fill this job.



Temporary Engineering Building No. 1. West Virginia University, Morgantown, West Virginia

THIS PRE-ENGINEERED BUILDING

was planned and completed in 6 months



Temporary Engineering Building No. 2. This Butler building was erected at the same time as the larger building above and serves as a testing laboratory for engineering students. Note the clear, overhead space, the column-free floor area permitting use of moveable partitions.

A raging fire destroyed Mechanical Hall at West Virginia University. Even though a new 10 million dollar agriculture-engineering plant was on the drawing boards, temporary facilities were needed quickly. Within six months school engineers designed the building above, the Butler components were shipped from stock and the building was completed and ready for occupancy.

Fast construction is just one of many advantages Butler pre-engineered components offer. Pre-engineered to meet applicable building codes, they save much tedious routine engineering. Mass-produced, they eliminate custom fabrication. Butler's clear-span, column-free interiors afford full utilization of space. Ventilation and illumination can be controlled easily, economically, to provide a superior environment. Future expansion is fast, easy, and economical.

For full details on the advantages and economies that Butler pre-engineered building components offer, contact your Butler Builder. He's in the Yellow Pages under "Buildings" or "Steel Buildings". . . or write direct.

see our catalog in Sweet's or write for copy

BUTLER STEEL PRODUCTS

BUTLER MANUFACTURING COMPANY

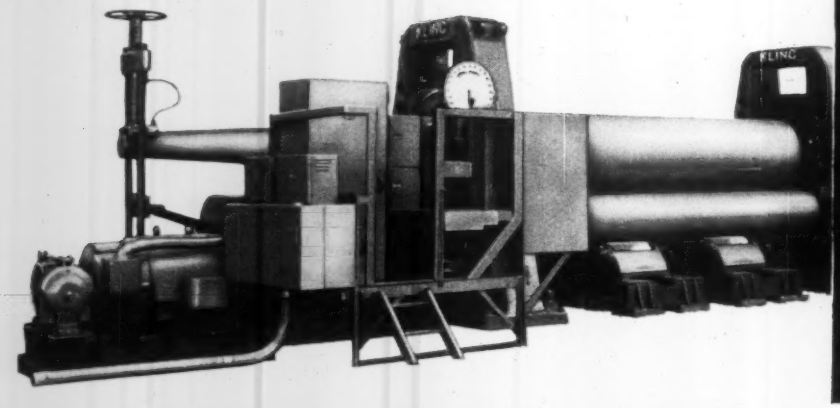
7417 East 13th Street, Kansas City 26, Missouri

AISC

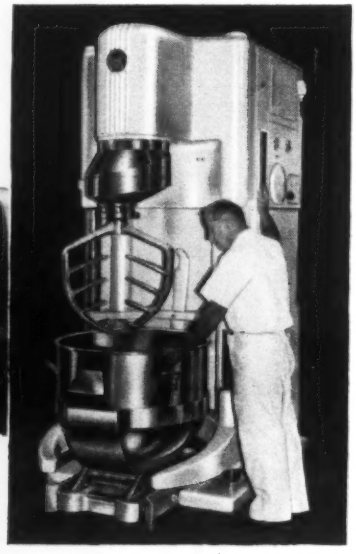
Manufacturers of Metal Buildings • Equipment for Farming, Dry Cleaning, Oil Production and Transportation, Outdoor Advertising • Custom Fabrication

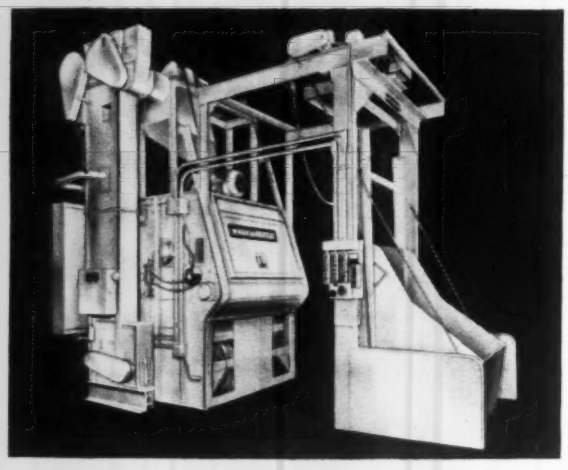
Sales offices in Los Angeles and Richmond, Calif. • Houston, Texas • Birmingham, Ala. • Atlanta, Ga. • Kansas City, Mo. • Minneapolis, Minn. • Chicago, Ill. • Detroit, Mich. Cleveland, Ohio • Pittsburgh, Pa. • New York City and Syracuse, N. Y. • Boston, Mass. • Washington, D.C. • Burlington, Ontario, Canada

The Kling Brothers Engineering Works manufactured this steel plate bending roll for one of the leading shipbuilders . . . it's completely equipped with Cutler-Hammer Motor Control and magnetic brakes.



American Machine & Foundry Company's Glen Mixer, used by the baking and pharmaceutical industries for mixing large batches, features Cutler-Hammer Motor Control.

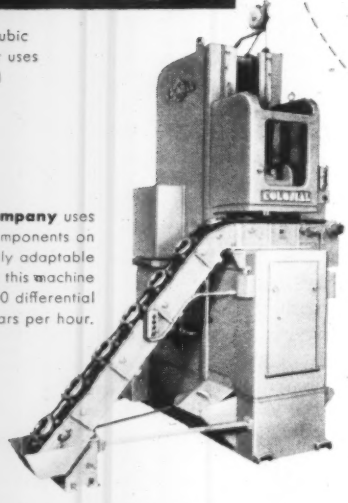




CUTLER·HAMMER
CONTROL
C·H

Choice of the leaders . . . the mark of better machines

The Wheelabrator Corporation's 14 cubic foot Super Tumblast abrasive blast cleaner uses Cutler-Hammer Motor Control as standard original equipment.



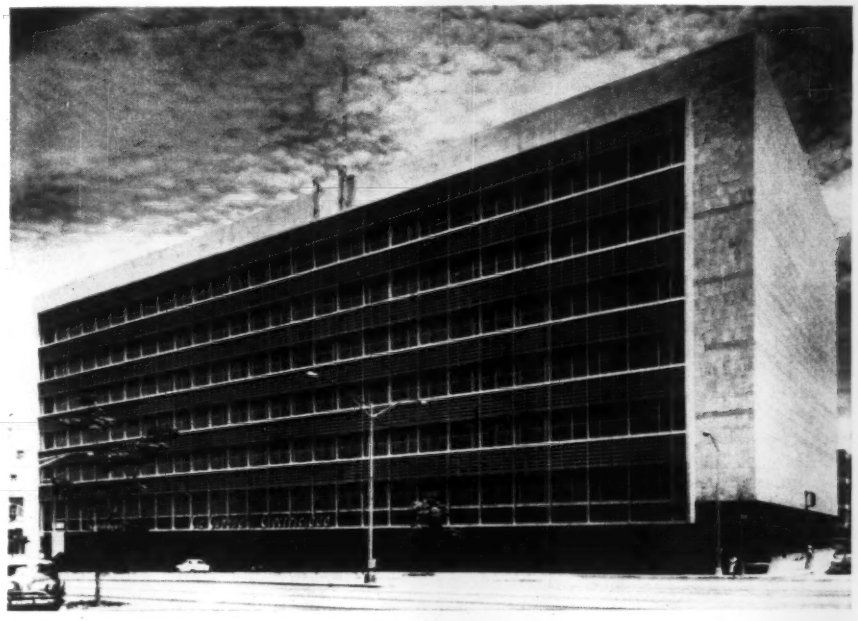
Colonial Broach & Machine Company uses Cutler-Hammer Control Components on their RU 15-48 model. Easily adaptable to fully automatic operation, this machine is capable of broaching 300 differential ring gears per hour.

The proper performance of any machine requires dependable, trouble-free service from the motor control which directs and protects it. This is why leading machinery builders use Cutler-Hammer Control. It installs easier . . . works better . . . and lasts longer. For prompt attention to your control requirements write Dept. U270, Cutler-Hammer Inc., Milwaukee 1, Wis.

CUTLER·HAMMER

Cutler-Hammer Inc., Milwaukee, Wis. *Division:* **Airborne Instruments Laboratory.** *Foreign:* **Cutler-Hammer International, C. A.**
Associates: Canadian Cutler-Hammer, Ltd.; Cutler-Hammer Mexicana, S. A.; Intercontinental Electronics Corporation, Inc.

Small Business Goes International



A SMALL COMPANY *whose products are gaining world-wide distribution through licensing arrangements is Seaporcel Metals, Inc. Shown here is the new Legislative Palace in Panamá, which is sheathed in Seaporclad, one of Seaporcel's porcelain enamel curtain wall building products.*

ALEXANDER O. STANLEY

More and more small and medium-size companies are looking to foreign markets for sales and profit expansion. Here is how some of them have developed internationally—and how others can find new profit opportunities overseas.

THERE WAS a time when it was accepted practice for a new company to spend many years establishing itself firmly on the domestic scene before entertaining any overseas ambitions. Then, when it was successful nationally, it might start to export, moving cautiously through the maze of legislation and regulations surrounding overseas markets.

Small business generally would have considered the idea of manufacturing its products overseas fantastic—the markets were too remote and the undertaking too expensive. Overseas manufacturing, the smaller companies felt, was best left to the industrial giants.

But times have changed. Today the preserve of big business—direct manufacturing investments overseas—is rapidly being invaded by small companies whose capital and sales are tallied in the hundreds of thousands instead of the hundreds of millions. What small management lacks in international expertise, it seems to make up in ingenuity.

Why does small business go international? The reasons are diverse—but one is that it's a lot easier, cheaper, and faster to get around the world these days than it was even a decade ago. Because of the tremendous expansion in international tourist air travel abroad, travel rates are lower, scheduled flights are more frequent, and remote cities are included in airline itineraries.

Communication and banking facilities have grown to accommodate the business man as well as the tourist. Vacations abroad have become busmen's holidays for many executives who are curious to see how their overseas counterparts live and work.

Bigger profits through foreign sales, lower costs through foreign purchases, and a stronger competitive position through the interchange of ideas are some of the factors leading smaller concerns to branch out overseas while they are branching out domestically. In some cases, going international has been part of a methodical plan. In others, casual inquiries from abroad have started management thinking about opportunities overseas, especially when advertisements in U.S. consumer and trade papers (and these are constantly setting new foreign circulation records) have brought in floods of letters from readers identified with various business

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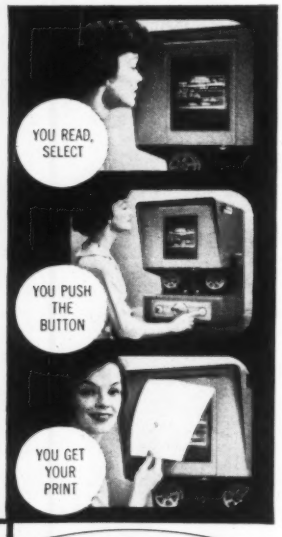

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organizations and interests abroad.

The divergent reasons, methods, and results are illustrated by three case histories of small businesses that went to market overseas:

Seaporcel Metals, Inc., *Long Island City, New York. Net worth: $972,000.*

This company is the leading producer of porcelain enamel metal curtain wall panels, which are currently sheathing many of the nation's office buildings, hotels, schools, hospitals, tunnels, and industrial plants in color.

Twenty-six years ago M. Jesse Salton, Seaporcel's president, had trouble convincing architects and builders in the United States that he had developed one of the great future "skins" for commercial and industrial buildings. Today his concern can't turn out enough "Seaporcel" and "Seaporclad" to meet heavy current demands. (These are not items that can be stocked. Each project is a custom job with the material fabricated to specific details, sizes, components, colors, and textures.)

Benefits from advertising

The company has advertised regularly in architectural and building publications, and it is Salton's belief that the publications carrying Seaporcel promotion to U. S. architects and builders also carried the story to foreign markets with great effect. The eventual Seaporcel foreign licensee arrangements were due largely to the impression the company's advertising and publicity made upon architects, builders, and porcelain enamel producers in foreign capitals.

In 1952, Seaporcel introduced "Seaporclad" — a lightweight porcelain enamel curtain wall spandrel panel. Defined as a lamination of porcelain enameled steel to thermal and noise-insulating cores, this sandwich-type walling gave Seaporcel an advantage in the infant industry, and as the trend to porcelain curtain walling grew in the United States, foreign industrialists and porcelain enamel producers began making inquiries about the possibilities of licensee arrangements with Seaporcel.

To meet this burgeoning foreign interest in franchise arrangements, it was necessary to develop a uniform plan for handling the licensees. This pattern evolved: All licensees must permit inspection of their manufacturing facilities before a contract is made. They are required to spend from six to twelve weeks in Seaporcel plants learning the complete Seaporcel fabrication technique. Seaporcel executives supervise initial fabrications of the panels in licensee home plants. All licensees are entitled to produce panels featuring new developments and techniques as they are created by Seaporcel engineers, designers, and new product developers at the plant. In return, any new techniques

answers to questions ab

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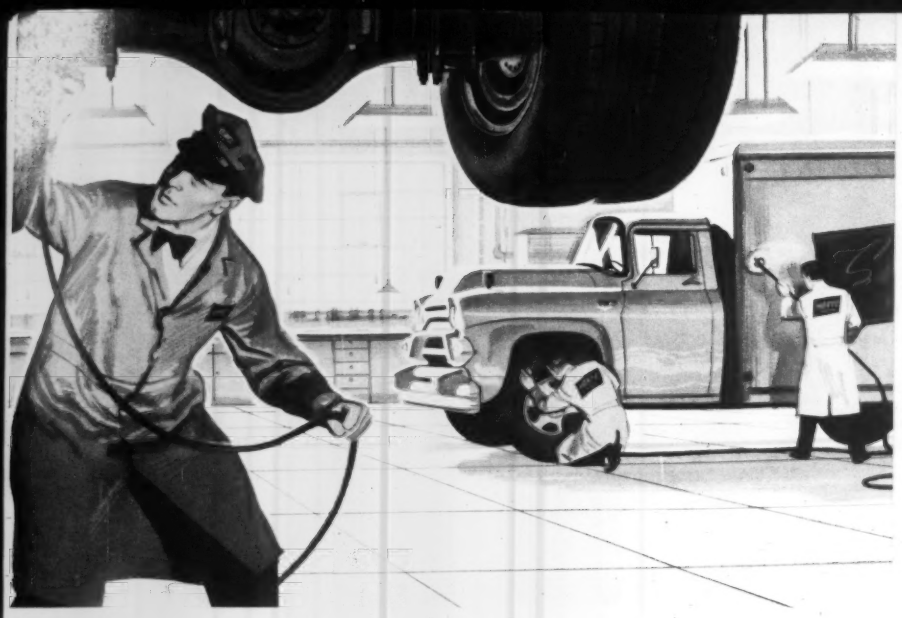

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developed abroad are sent to Seaporcel to be passed on to all licensees.

While all overseas royalty contracts are drawn up for a period of ten years, they carry an escape clause in the form of a first-year trial arrangement. Licensees may pay a minimum royalty as low as $1,000 or as high as $10,000 annually, with payments geared to actual sales. Royalties start at 5 per cent and slide down to 2 per cent as sales expand.

The dollars-and-cents results from operations abroad are still modest—only $60,000 on an overseas volume of $1.25 million in 1958—says B. B. Loring, executive vice president. But projecting recent sales reports, which show startling gains, he confidently predicts a fat $250,000 in annual royalties by 1963, and expects that overseas income will constitute close to 25 per cent of the Seaporcel net within five years.

Lafayette Brass Manufacturing Company, *New York City. Net Worth: $710,000.*

Trying to produce better metal garden accessories started Lafayette president Norman Redlich on a world hunt for manufacturing facilities that could turn out quality components at a lower price. The result: Lafayette now buys brass in Germany and ships it to Italy, where it is made into a wide range of garden accessories. And lawn sprinklers are assembled in Japan from parts made locally, as well as in the United States. At the same time Lafayette manufactures more than half its products in the United States, including duplicates of products made in Japan.

Says Redlich, "The time is rapidly approaching when a small manufacturer can subcontract production or manufacture almost anywhere in the world as easily as in the United States."

Lafayette's chief engineer spends six months a year visiting factories abroad. His assignment is to combine American concepts of design and quality control with the advantages of low-cost Japanese and Italian production. The manufacturing system is essentially the same at home and abroad.

New products are designed and engineered by Lafayette's development team here at home. Working samples are prepared and given extensive field tests. When a product is approved, final blueprints and parts drawings are prepared.

The chief engineer then works with Lafayette's staff of engineers in Japan. Most of Lafayette's subcontractors there work for the company on an exclusive basis, and it is frequently necessary to make changes in design to conform with the available facilities.

Lining up the proper manufacturers requires an extensive knowledge of Japanese facilities in such diverse fields as zinc die casting, chrome plating, screw machine parts, molded rubber, plastic injection molding, and tubular products. Jigs, dies, and molds are designed and purchased by Lafayette and remain the company's property.

All steps in production are supervised by Lafayette personnel, and final assembly takes place in Lafayette's plant on the outskirts of Tokyo. When the products reach Lafayette's plant in New York, they are put through additional quality control tests and packaged.

Japanese companies appreciate Lafayette's interest in developing controls systems for them, even though controls are a new concept to all but the larger companies. Says Redlich: "Small firms usually don't send in someone to engineer a piece of machinery, to straighten out bugs, to watch for critical areas.

CHIEF ENGINEER *Jules Rosenkranz, Lafayette Brass Manufacturing Company, inspects the new plant of a Japanese die-casting company, one of Lafayette's overseas subcontractors.*

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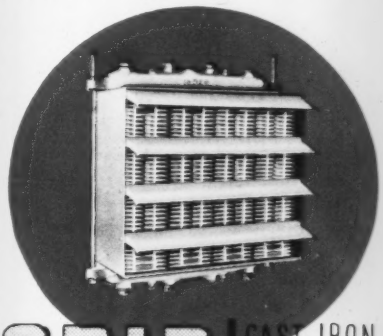

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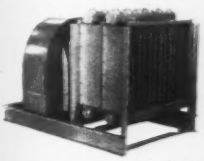
You eliminate internal electrolytic corrosion because all metals in GRID Cast Iron Steam Heat Transfer Surface in contact with steam are similar . . . not 2 or 3 different metals that promote corrosion to cause leaks and breakdowns. GRID Cast Iron Steam Heat Transfer Surface eliminates external corrosion because its cast iron construction resists acid fumes in the air. When corrosion in heat transfer equipment ends, maintenance ends.

GRID Cast Iron construction eliminates the use of reducing valves where high steam pressures are used. It is designed to withstand steam pressures up to 250 P.S.I. . . . 450° temperature. GRID Cast Iron Steam Heat Transfer Surface does away with replacement costs because GRID is built to last for years . . . operating successfully without maintenance in many plants since 1929.



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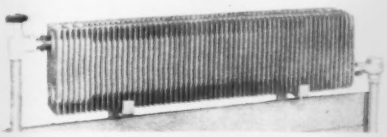

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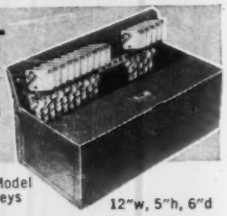

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Japanese manufacturers don't want to make inferior products, but they need help in making better ones. While manufacturing procedures are improving all the time, right now the Japanese are still expending an incredible amount of human effort to produce.

"American importers constantly run the danger of buying inferior products if they ask a foreign company merely to copy a product. You can't expect them to make something they've never made before just by looking at it or by taking it apart."

Insistence on quality

By setting up the same standards of quality for both its domestic and foreign production, Lafayette has proved over the past five years that poor quality has nothing to do with country of origin, but is due, rather, to an irresponsible attitude on the part of a manufacturer or importer. And this attitude is disappearing fast under the pressure of competition and consumer sophistication.

Lafayette's dual production system allows the consumer a saving of 30 to 50 per cent. Sometimes a product will not be cheaper in price, but will have added quality features that could not be included if the item were made domestically. For example, all Lafayette's brass sprinklers are chrome-plated, a feature which involves a small additional cost in Japan but would be prohibitively expensive in the United States.

Since embarking on its foreign manufacturing program in 1955, after six years of wholly domestic production, Lafayette and its sales organization have built up a $6 million volume. Its line of lawn and garden equipment is known and sold nationally. The investment: $750,000 every year in materials and equipment abroad. However, when Lafayette first started working overseas, it found that even the best-laid plans can go awry. Though there was a large developmental investigation and considerable planning in advance, in the first year Lafayette took a loss of $80,000 on a small item made in Italy by a manufacturer who had not followed specifications.

Fischer and Porter Company, *Hatboro, Pa., Net Worth: $5.6 million.*

The desire to broaden its base of operation and, of course, its profits led Fischer and Porter's management to market its line of data reduction and automation systems, complete process instrumentation, chlorination equipment, and industrial glass products overseas. Aware that it would run into some tough competition in the industrially advanced European markets, F&P soon decided that it would have to manufacture the products abroad to compete successfully in foreign markets. To build new plants from the ground up obviously involved too much time and capital, and too large a staff investment.

So F&P decided it would try to get the instrument manufacturers in the various countries to accept F&P's brand of technology. Accordingly, F&P executives began a series of exploratory trips to England, France, Holland, and Germany, calling on instrument manufacturers in each market to sound them out on F&P procedures and products. The maneuvers were complicated because F&P wanted majority capital control in exchange for releasing know-how. Some companies wanted licensee agreements, to which F&P was opposed; others wanted to steal the processes; still others wanted to form a third company giving F&P only a small share.

A formula was finally developed, and the foreign companies agreed to yield anywhere from 33.33 to 45 per cent of capital stock in exchange for the F&P processes. In rapid succession deals were concluded, and eventually 100 per cent control was acquired in most instances. Today the F&P letterhead lists branch plants in Toronto, London, The Hague, Clermont-Ferrand (France), Melbourne, Mexico City, and Göttingen, Germany.

Obstacles en route

If creating its special brand of international organization was tough, the operational follow-through also held plenty of snags. Blueprints and specifications that could be read with ease here had to be revised to conform with the English system of measures and with the metric system for F&P's Continental partners. And because materials normally specified were sometimes too costly or too hard to get, substitutions became commonplace. A case in point: In order to satisfy corrosion-resistance requirements for equipment used by petroleum industries, F&P used stainless steel in its U.S. produced equipment. But this commodity is very expensive in Europe. So, after much trial and error, plastic substitutes and metal coatings were devised. And F&P found that it even had to coat metal in special ways in order to make its end product reasonably competitive in price.

Variables in machine tools proved another headache. A die worth $50,000 had to be redesigned so that parts could be machined on antiquated lathes. After some experimentation it was found that certain parts could be turned out more cheaply by having one branch plant abroad supply the other branches. Even after shipping costs and duties were tacked on, the landed cost was lower than if each plant had been equipped with costly machine tools used, perhaps, only part time. (This improvisation will pay off handsomely when the European Common Market plan gets into gear.)

Then the electric input was found to

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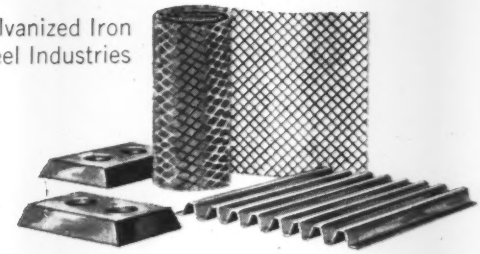

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Through our diverse facilities, Eagle-Picher is an outstanding "manufacturer's manufacturer" serving such industries as paint, automotive, ceramics, food packaging, farm equipment and agriculture, electronics, petroleum, appliances and many others. Over the years we have proved in these industries that our manufacturing and research techniques successfully supplement those of our customers.

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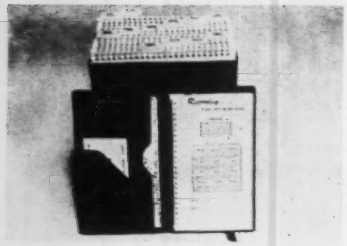

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be wrong—a vital drawback, since F&P equipment usually tied into secondary instruments already in use. There was nothing to do but rewind the coils in the instruments.

Shortage of engineering manpower in Europe was another stumbling block. It was finally resolved by shuttling technical personnel between the U.S. headquarters and F&P's European branch plants.

Finally, quality control had to be sold—not only to customers but to F&P's compatriates in branches abroad. Since F&P prices usually ran higher than those of competitors, quality was all-important. If in some cases a cheaper model sufficed, it was made clear to customers that modified specifications, and not lowered standards, made the lower prices possible.

For all its tribulations, F&P management is satisfied it made the right move. It has a solid footing in the European market today, and its overseas earnings are making an important contribution to its profit picture. It has even been able to pick up some domestic accounts previously regarded as tough prospects by selling F&P products to their foreign affiliates.

While American executives have been seeking out new opportunities all over the world, interest in American products and techniques abroad has been keeping pace. Some idea of its scope may be gained from the following list of investment opportunities and revisions of investment laws reported by *Foreign Commerce Weekly* during the first seven months of 1958. (The inquiries from private business are identified as FCW inquiries.)

ARGENTINA: Private foreign capital investments approved in 1957 totaled $15.3 million, the U.S. share $6.7 million. In May 1958, President Arturo Frondizi stated that further legislation on foreign investments would be introduced and that new investments under consideration would add nineteen large plants to the large industrial complex of Argentina.

AUSTRALIA: Industrial sites in New South Wales, Victoria, and Queensland are being offered to U.S. companies. Water, electricity, gas, and other facilities are in ample supply, for the most part, for both primary and secondary industries.

AUSTRIA: Some of the most profitable manufacturing branches are approaching full utilization of capacity, and substantial investment programs covering several years have been started. But power needs are a retarding factor.

BELGIUM: Published FCW inquiries center around licenses to produce valves for the petroleum industry, food machinery, industrial floor maintenance machinery, road construction machinery, and paints and chemicals.

BERMUDA: The Bermuda Industrial Development Company offers, among other things, management and staff services to U.S. manufacturers. Market surveys for any specific product will be undertaken.

BRAZIL: Industrially one of the most advanced of Latin American countries, Brazil has been bogged down in a morass of dollar exchange difficulties. To be approved, investment has to be largely in the essential industry category, at least for the present.

BRITISH WEST INDIES: The new Federation of West Indies is pushing for economic development and improvement. All the Federation's units have enacted legislation to encourage the investment of foreign capital, and laws grant tax and tariff incentives to new industries. The Trinidad Legislative Council on May 9 passed enabling legislation for the establishment of an Industrial Development Corporation.

BRITISH GUIANA: To stimulate private investment, special legislation has been passed offering tax and other concessions. In addition, the British Guiana Credit Corporation has been established to assist in promoting development and to provide credits for agriculture, industry, and forestry.

CEYLON: In fields where it will strengthen the country's economy, foreign private investors will be permitted eventual repatriation of capital, including appreciation, and remittance of dividends. Some tax exemptions are also offered.

DENMARK: Capital investment is less in demand than licenses. There has been recent interest in fields as diverse as manufacture of sportswear and production of nucleonic equipment, and in machinery to manufacture products ranging from footwear to household appliances.

ENGLAND: That many towns in England are advertising for and inviting U.S. industrial enterprises indicates the current desire to adapt, expand, and modernize existing facilities. Preference is usually for licensing agreements in FCW inquiries.

FRANCE: While political turmoils are going on, inquiries for new ventures continue to show up frequently. Capital is rarely asked for—instead licenses to develop mass production techniques are usually sought.

GERMANY: The Federation of German Industries earlier this year recommended a program to promote private (German) capital *exports*. And recently U.S. companies contemplating the establishment of manufacturing facilities or branch offices in Europe have been invited to inspect a number of industrial sites in Germany.

HONG KONG: Leading government and business figures in Hong Kong have

for some time held the view that the colony's considerable industrialization, which is of comparatively recent origin, can achieve more enduring success if product quality and business reliability can be more widely established. But the tradition of free enterprise is strong in the Colony and carefully guarded by the Hong Kong government and the business community.

INDIA: A private, limited corporation, the Refinance Corporation for Industry, was recently established to provide financial assistance to medium-size private industries. This is the fifth Indian financial institution organized to make credit available to industries for new projects and the expansion of existing facilities, particularly to industries regarded as essential to the attainment of India's five-year plan. Subject to certain conditions, American subsidiary companies located in India and companies registered in India that possess American capital are eligible to receive loans from the five organizations.

The government has proposed to establish nearly 100 major industrial "estates" or parks during the second five-year development plan. Two of these were opened recently.

IRELAND: The campaign to attract American industrial investment has been stepped up. At Shannon Free Airport in Ireland, one of the aerial gateways to Europe, 250 acres have been set aside for an industrial park. Inducements include a maximum grant of $140,000 to each concern for building and plant, no profits tax for ten years, and grants for training specialized workers.

ISRAEL: While FCW inquiries are sparse, the preference seems to be for licensing arrangements. The products wanted: core bits, hand tools, phosphating materials, acid inhibitors, and related lines.

ITALY: The Port of Brindisi offers 30- to 50-year leases on industrial sites in the newly developed Brindisi free zone for the nominal sum of 100 lire (16 cents) a year. The free zone, comprising an area of 123.5 acres, is said to have excellent facilities, including hard-surfaced roads, ship-berthing facilities, railroad connections, and ample water, gas, and electric utilities.

LIBYA: A foreign-capital investment law has been promulgated, providing federal and provincial duty and tax exemptions on projects deemed to improve and develop Libyan economy. Also, repatriation of capital, profits, and salaries is to be unhindered. The law applies to projects in which not less than 51 per cent of the capital is from foreign sources, but not to oil operations.

MALAYA: The government considers the cultivation of a favorable investment climate its primary function. Inducements include a five-year tax moratorium for certain new industries, a five-

"I've found that a good independent manufacturer offers many bonus values—today"

"We've done business with lots of companies—from giant-sized corporations to the comparatively small independents. And believe me, I've found that a good, progressive, well-financed independent gives us much more for our money.

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year tax exemption on dividends to shareholders from certain new enterprises, free convertibility and repatriation of capital and earnings, and guarantees to private enterprise.

MEXICO: The peninsula of Baja California, with a population of nearly 500,000, was declared a free zone by the Mexican government in 1937, by an act which permits entry of goods duty-free to help expand the economy. Since its development as a free port, various industries have been established.

NETHERLANDS: Tax deductions for industrial investments will be reinstated in the Netherlands beginning January 1 for all companies.

PAKISTAN: Pakistani rupees equivalent to $16.4 million are available on loan to U.S. investors contemplating the establishment of industrial enterprises in the private sector of Pakistan, according to the Export-Import Bank. Under U.S. Public Law 480, a U.S. business concern or its branch, subsidiary, or affiliate may borrow from this rupees fund for the general objective of business development and trade expansion in Pakistan.

PHILIPPINES: The Monetary Board of the Philippine Central Bank several months ago announced that, pending improvement in the Philippine balance of payments, it would not allocate foreign exchange to new producers requiring regular exchange quotas for the import of raw material—except for new basic industries which obtain at least 75 per cent of their total raw material from local sources. But this promises to be only a temporary measure.

PORTUGAL: The government, which had been opposed to the use of foreign funds for financing projects under its first six-year plan, has now decided to obtain funds from external sources to the extent of 6.5 billion escudos ($227 million) for carrying out projects included in Portugal's second six-year plan.

SARAWAK: New industries are now granted relief from customs duty and income tax. They are permitted to write off one-fifth of their capital expenditures against income in any five years, not necessarily consecutive, during an eight-year period.

SCOTLAND: The Scottish Council (Development and Industry), formed to promote trade and investment, is offering its services to U.S. companies interested in establishing business enterprises in Scotland and or concluding licensing agreements with Scottish concerns. Opportunities reportedly exist in the fields of engineering, scientific products, foods and packaging, and chemical products. Licenses are preferred.

SIERRA LEONE: The government welcomes foreign investment and is determined to pursue a more active policy to attract it. This is one of the major economic developments in this emerging nation on the west coast of Africa.

UNION OF SOUTH AFRICA: The Central Bank of the Union of South Africa has cautioned local manufacturers not to conclude patent license or other franchise contracts involving royalty payments to nonresidents of the Sterling Area before submitting the royalty-payment provisions to the Union Treasury for approval. However, the chairman of the Government Industrial Development Corporation emphasized the tremendous role played by secondary industry.

SPAIN: In a recent edict Spain has provided for an exemption from its "tax on companies" up to 50 per cent of earnings set aside for fixed-capital investment.

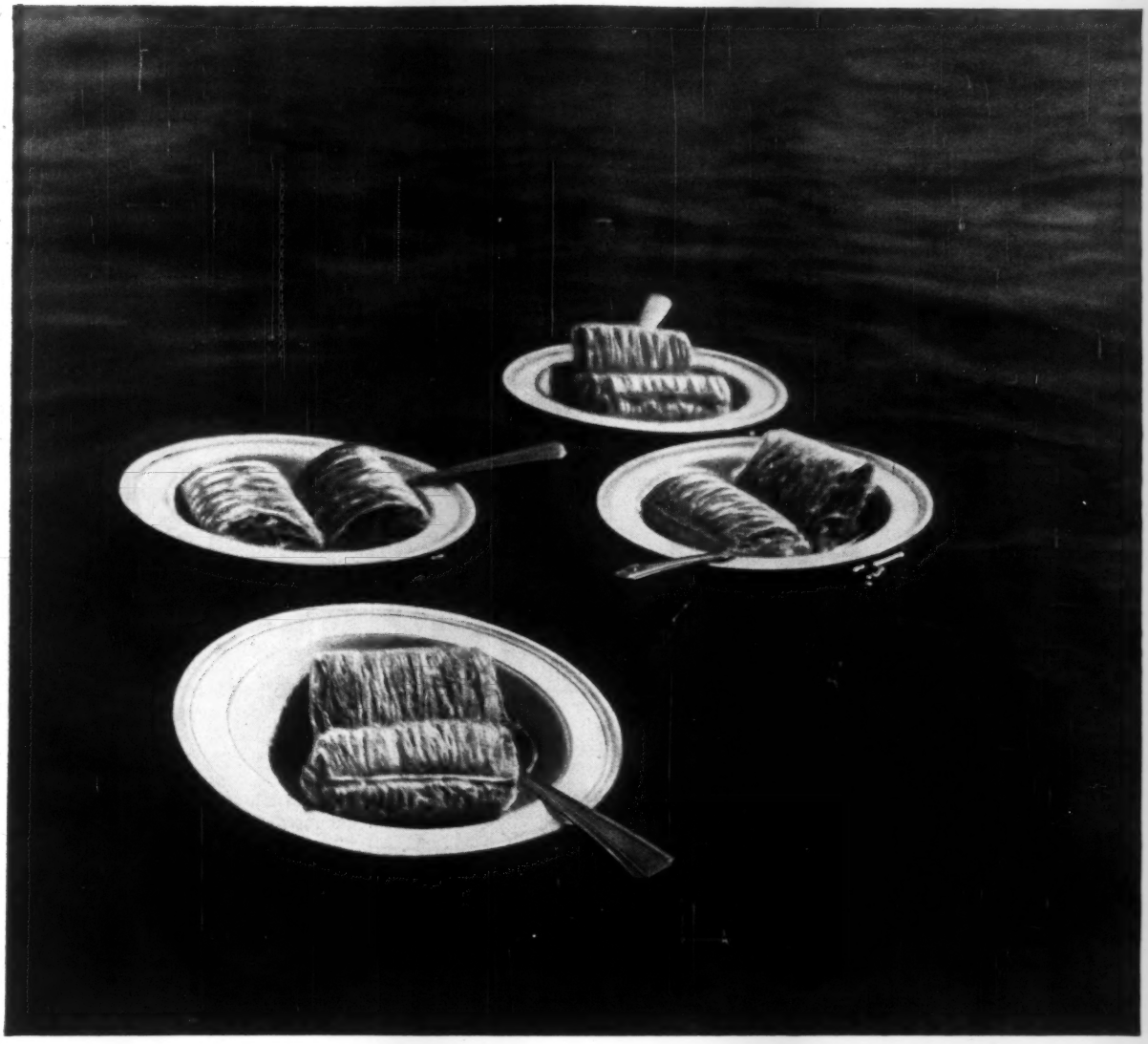
TUNISIA: The government, in launching its program to promote private investment, cites the availability of raw materials and the need for such industrial enterprises as plants for the production of iron and steel, fertilizers, chemicals, pulp and paper, paints, dyes, household products, and for food processing and canning plants.

TURKEY: Opportunities for investment are cited in a recent study of the canning industry, published by the Turkish Union of Chambers of Commerce. The study indicates that, under certain conditions, attractive opportunities exist for the processing of various food products.

VIETNAM: Private interest in establishing new industries in Vietnam appears to be growing, and U.S. companies inquiring into possibilities of investing in the country are beginning to find more competition from other potential foreign investors. In addition to the expansion now started in the textile industry in Vietnam, projects are in various stages of consideration and planning in pharmaceutical glass, sugar, bicycle tire, paper, and other fields.

YUGOSLAVIA: Recent inquiries have sought licensing agreements to manufacture raw films, particularly for cinematographic, graphic, and X-ray use, and coloring materials. In addition, inquiries have been received for licenses to develop synthetic fabrics and to expand production of parts for internal combustion engines.

This geographical rundown makes clear that investment opportunities abound in all fields. True, the investment climate changes from time to time, but new opportunities constantly arise. If you are interested in investing abroad, follow the investment opportunities reported by the Trade Development Division of the Bureau of Foreign Commerce closely. And for a more statistical and pragmatic appraisal of investment climates equip yourself with a copy of *Foreign Development Organizations for Trade and Investment*, prepared by this Government bureau. END



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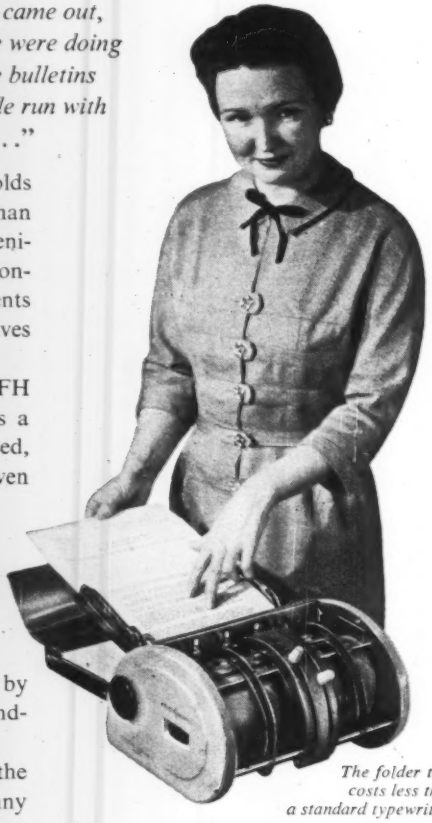

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EXPENSE ACCOUNTS

continued from page 41

expenses, and in many cases tightening up the internal reporting of them. With one eye on the Internal Revenue Service, a significant number, including concerns that are doing nothing else about expense accounts, are having more bills charged directly to the company through a variety of credit plans.

This trend toward strictness seems particularly prevalent among larger concerns. Almost a third of the companies that are taking active steps to curb expense accounts employ at least 10,000 persons; only 15 per cent of those that are standing pat are in that category. Similarly, close to half the economy-minded business concerns have at least 5,000 employees, but only a third of those that are taking a business-as-usual stand on expense accounts are as large.

Of all the replies received in the DR&MI survey, only two were from companies that made use of flat expense allowances. One of these has discontinued the plan completely and, though it says the move had no connection with the recession, it reports that it has "created a questioning attitude among all executive and staff employees as to the necessity for expenses."

Better than 21 per cent of the survey responses—representing almost half the companies committed to cutting personal expenses—have tightened up their expense account reporting procedures. Greater detail is almost universally demanded. Some companies that never did so earlier are requiring executives to have their expenses approved by a superior. And superiors are scrutinizing expense reports more closely.

Reports one giant manufacturer, "We are making a particular effort to be sure that the use of rented cars and personal cars on business trips is approved in advance by supervisory people."

"All executive expenses," notes an office equipment company, "after approval by the respective department heads, are screened by the controller for accuracy and reasonableness."

Plugging the chinks

Supporting data in the form of hotel bills and the like are being required in an increasing number of cases. Prompt reporting is another new rule in some instances. One concern now requires that expense reports be submitted within three days of the completion of a trip.

Even where bills are charged directly to the company, controls are tightening. For example, one company reports, "If hotel bills or transportation bills are charged directly to the company, these bills are referred to the individual executive, and he is requested to approve the charge and indicate on the face of

the bill for whom and for what reason it was expended."

Often, top management itself is giving close personal attention to individual expense accounts. One medium-size manufacturer writes that "summaries of expense accounts for executives are being submitted to top management." An aircraft producer has systematized things to the point of preparing quarterly reports of executive expenses for the benefit of top management.

One of the more interesting phenomena growing out of the Internal Revenue Service's heightened interest in business expenses has been the increased use of credit plans and direct billing of companies.

Close to 15 per cent of the concerns responding to the survey report they are making more direct payments for such things as airplane fares, railroad fares, hotel bills, automobile rentals, gasoline, and club charges. There seems to be a growing use of credit cards for restaurants, and one small manufacturer has gone so far as to arrange to have automobile repairs charged directly to the company.

More on the cuff

Even companies that aren't doing anything in particular about their expense accounts report they are making greater use of charge plans.

The American Hotel Association, which acts as a sort of credit-guaranteeing agency for its members, reports applications for its Universal Travelcard (since sold to the American Express Company, which has just launched a major new credit card covering a wide variety of services) took a 50 per cent jump about the first of the year. Sales made on the cards during the first quarter of 1958, the Association says, were 56 per cent higher than they were during the same period in 1957. AHA spokesmen are convinced that the more stringent tax reporting rules are responsible, and they add that hotel bills are becoming more itemized and detailed.

Similarly, the Diners' Club says its membership has gone up nearly 180,000 since last October, almost a 35 per cent increase. Cards held in the names of business concerns presently account for 55 per cent of the club's total of around 700,000 (excluding 100,000 added by its recent merger with the Esquire Club), whereas they used to amount to 45 per cent.

Unlike the American Hotel Association, Diners' Club handles all billing itself and charges participating merchants 7 per cent for its services. In addition to restaurants and hotels, it offers such things as car rentals on its credit plan.

Actually, under the current rules of the Internal Revenue Service, even expenses charged directly to a company

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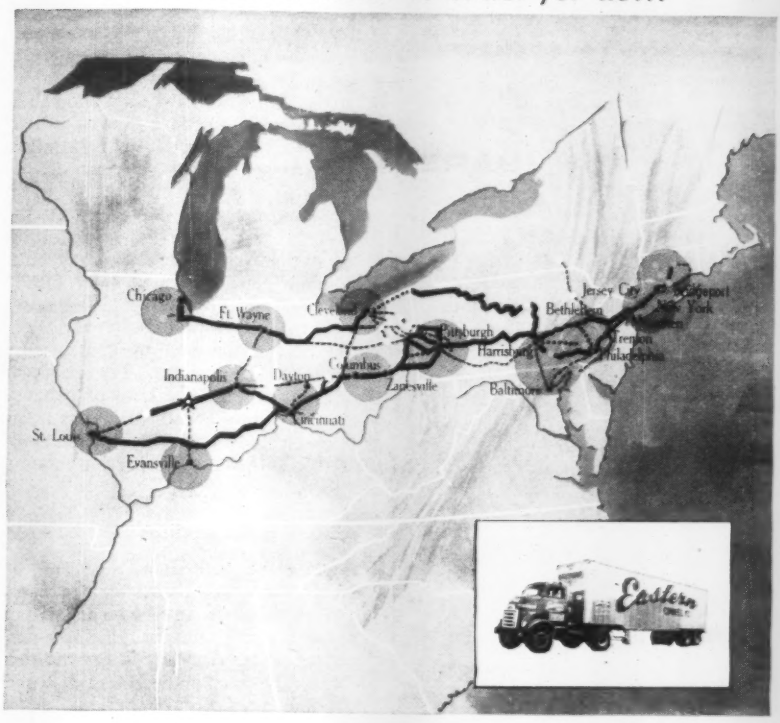

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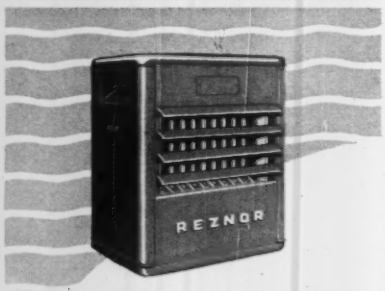

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must be handled as if they were disbursed to the employee—if that employee is on a flat expense allowance for which he doesn't account. For example, if an executive on a flat allowance charges a hotel bill on a company-held credit card, he must include the amount of the charge as gross income on his tax return and then deduct it as a business expense.

Even in such a case, however, credit card companies will tell you they offer a valuable service because their billing gives a detailed breakdown of expenses and provides the kind of solid documentation now demanded by increasingly scrupulous tax examiners. Furthermore, they point out, in any kind of expense account situation consolidated payments are less troublesome than a series of disbursements to a number of individual employees.

Pinpointing the savings

Among the companies surveyed by DR&MI, three key target areas are being singled out in the drive to reduce expense account charges. One is entertainment costs. Another is expenditure per trip. The third is the extent of travel and attendance at conventions, trade shows, and professional meetings.

Close to 16 per cent of the companies that are striving to reduce expense account charges singled out entertainment as a fine place to economize. One electrical equipment manufacturer, for instance, has "impressed upon men at all levels that this is no time for indiscriminate entertaining."

Says another company, "Efforts have been made to reduce possibly overgenerous expenditures on entertainment of customers and 'staff' luncheons or dinners not genuinely necessary."

One of the largest companies responding to the survey has made a strict three-point attack on the entertainment problem. It now insists that only the minimum number of its own people essential to the business at hand be included in entertainment charges. It refuses to pay for alcoholic beverages. It even advises its executives to tip no more than 10 per cent. "Considered judgment," this company writes, "must be used in drawing the line between necessary and superfluous entertainment."

Better than 11 per cent of the expense-cutting participants in the survey are endeavoring to do something about cost per trip. One manufacturer, for example, reports that "cheaper forms of transportation have been recommended, and extra-fare flights are no longer permitted." Says another, "One of the largest expense items—air travel—has been cut considerably by directing all personnel, including top executives, to travel by air coach instead of first class flights when at all possible."

Indications are that some of the major carriers have been feeling the results to some degree. One important airline experienced a 4 to 5 per cent shift from first class to air coach service during the first five months of 1958. Another of equal prominence has found bookings for its coach flights up between 5 and 10 per cent since last October.

Those out-of-town trips

But the biggest single economy step has proved to be the reduction of travel generally and, specifically, curtailment of attendance at conventions, trade shows, and symposiums. Close to a third of the expense-trimming concerns polled by DR&MI have gotten in some of their biggest licks here. Seminars and conferences have been singled out in particular, with other types of business gatherings close behind.

Says one manufacturer: "Attendance at professional meetings has been curtailed, and enrollment at seminars has been drastically reduced. These changes are effective at all levels." And one of the nation's largest aircraft makers states, "Expenses are being reduced by means of lower budgets, which have resulted in less travel, particularly to symposiums and conventions."

Drawing the Line

Written policies on expense accounts help to keep costs down and prevent misunderstandings. And they can be reasonably definite, as these excerpts from Eastman Kodak Company's regulations show:

Railroad: Lower berth or roomette accommodations should be used, if available. Chair accommodations generally should be used only if the duration of the trip will be in excess of three hours. Extra-fare trains should be used only if they permit better scheduling of business appointments.

Air: Travel by air is optional with the individual and the cost is, of course, reimbursable. This does *not* include premiums for air-travel insurance.

Auto—Personal: Use of personal cars for business travel must be authorized in advance. If the trip is to be made by car because the employee requests it, the total cost of the trip . . . must not exceed the total cost that would have been incurred had the trip been made by plane or train.

Hotel: In hotel accommodations it is expected that both as to type of hotel and type of room neither the most expensive nor the cheapest will be used.

Meals away from home city: The actual cost of meals, including tips . . . is reimbursable. From 10 to 15 per cent of the meal cost is an adequate tip. Meal charges for others should be listed under "entertainment."

Entertainment: Where employees entertain [in interest of company] there should be a definite understanding between the employee and his department head regarding the kind of entertaining to be done.

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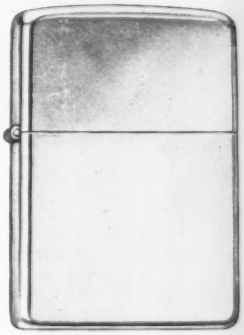

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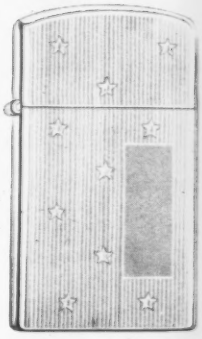

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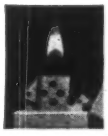

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Degrees of control over travel vary widely. One company leaves it up to its managers "to restrict traveling if necessary or eliminate it entirely to keep in line with reduced budgets." Another concern is making a very specific effort "to reduce administrative traveling 15 per cent."

A manufacturer employing 4,300 people is so concerned with travel costs that "all trip authorities today require the approval of the president." And its people have to forego hotel suites these days.

Fewer get to go

Rather than attempt to cut out certain trips and eliminate attendance at specific trade affairs entirely, many companies have concentrated on cutting down on the number of employees sent on any given out-of-town errand. One corporation says it is "eliminating unnecessary meetings and the number attending trade shows." Another is reducing the "number of people attending conferences and professional meetings." Still a third has set this policy: "Limit representatives to one wherever possible and in the interest of good management submit a narrative report to the appropriate administrators."

THE AUTHOR • Art Zuckerman is a frequent contributor to the business press and to consumer magazines. He is now with Fairchild Publications as an editor of *Footwear News* and previously served as merchandising editor of *Drug Topics*. He is a graduate of Washington Square College of Arts and Science, New York University.

Summing up the approach of many companies is this statement by the treasurer of a home-entertainment-instrument manufacturer: "The necessity of reducing costs and expenses, of casting a 'jaundiced' eye on all requests for expenditures that do not appear absolutely necessary, has been brought home in numerous ways to our executives. We feel that they have reduced their expenses by using the approach employed back in wartime gasoline rationing days: 'Is this trip absolutely necessary?' It is our feeling that these reduction efforts have been strongly felt at our top executive level, which sets a pattern for the entire company."

Certainly if hotel business is any criterion, this concerted drive on out-of-town trip expenses has had its effects. Horwath & Horwath, New York accounting firm specializing in the hotel field, issues its own monthly reports on hotel business throughout the country, and these show that for the first five months of 1958 room occupancy was off an average of 4 to 5 per cent, compared to the same period in 1957. Those close to the industry point out that in most cities business travelers account for the majority of room bookings.

For more than 13 per cent of the companies that have instituted strong expense-cutting programs, success has been sufficiently marked to be measurable. These have reduced business expenses anywhere from 5 per cent to as much as 35 per cent. Many others, who for one reason or another cannot gage results quite so exactly, report that savings have been evident.

An interesting exception is one medium-size company that is no doubt the envy of its competitors. Even though it is striving to pare costs, its treasurer writes: "We are operating within our budget figures, which contemplate an increase in expenses of about 4 per cent. Sales are also budgeted higher by the same amount."

This same two-way approach is taken by another manufacturer, whose vice president reports, "Each executive is asked to reduce his expenditures, hold them in line with his budget, *or even spend his full budgeted amount if we feel it will make him more effective in his work.*"

Tighter controls—here to stay?

Nobody expects the cost squeeze to last forever, and every company looks forward to the day when the profit line again starts climbing to the top of the chart. What will happen to all these carefully worked-out expense account controls when that happens?

Nothing, in the firm opinion of more than 70 per cent of the DR&MI survey participants who have set up such controls. A few, betraying a wry suspicion that human nature is unpredictable, say they're not quite so sure. One manufacturer put it this way: "When you look for large sales increases, and are making money, it is difficult to maintain control and obtain cooperation."

Perhaps, though, the most reasonable and balanced thoughts on the subject come from the treasurer of a radio and phonograph manufacturing company. He states: "Undoubtedly, as the business climate improves, the keenness of our philosophy regarding all costs and expenses will be relaxed somewhat. But it is our hope that there will be certain definite and permanent benefits. We feel we can draw some benefit from a recession by being forced to eliminate unsound or uneconomical practices that will creep into the picture during good times in spite of our best efforts. We do hope that we may retain some of these benefits as some return on the very high cost the recession has imposed upon us." END

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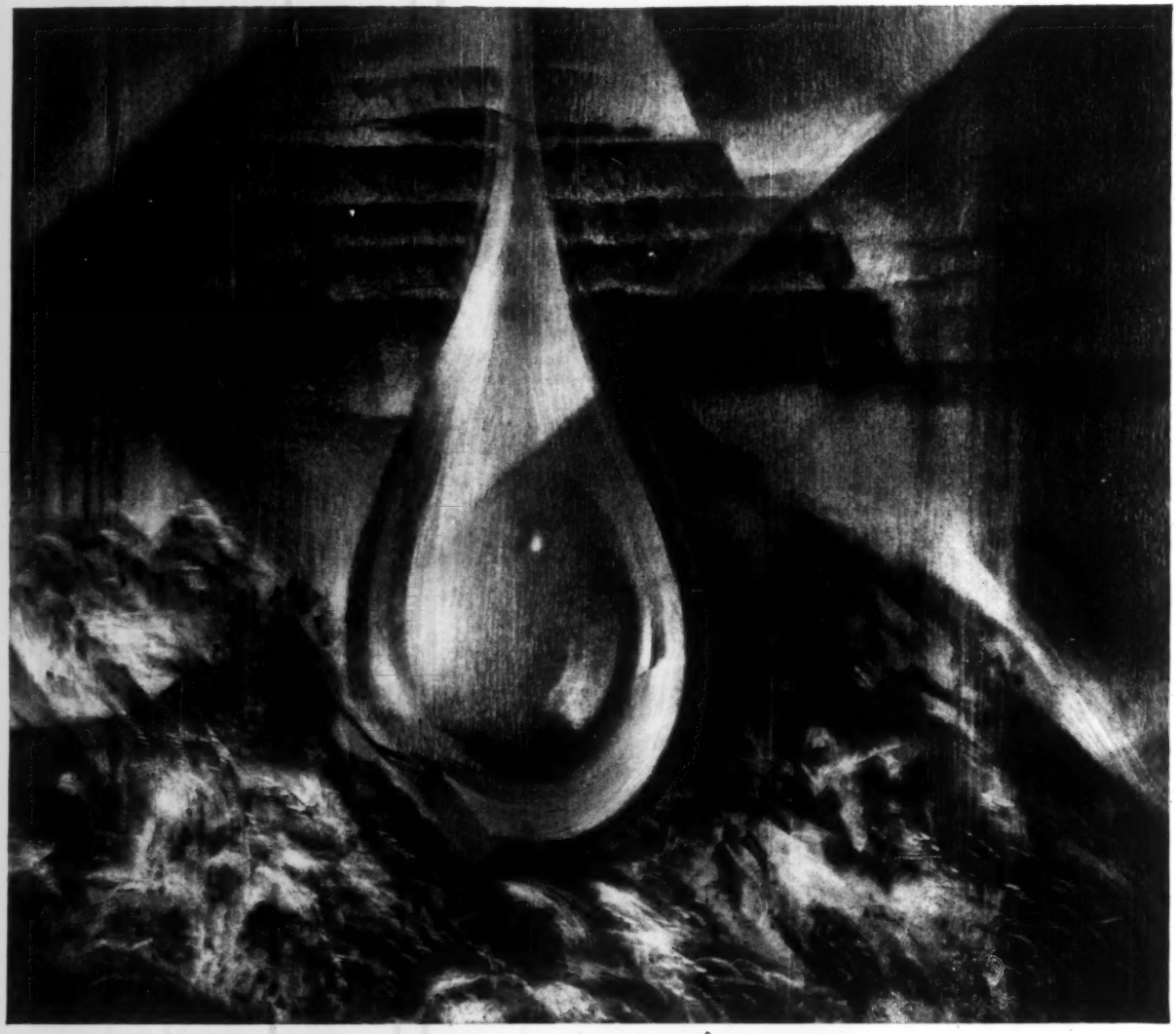

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ALSO: *Tougher Rubber; Renovated Locomotives; Tricky Liquids*

THE RECENT unveiling by Westinghouse of an experimental thermoelectric cooler-heater for baby bottles and the company's announcement of new thermoelectric ceramics highlight a substantial research program that is likely to result in major advances, not only in the appliance field but in the production of electricity as well. The $50 bottle tender and a small, compact refrigerator that operates on the same principle are still laboratory curiosities, but they point the way to refrigerators without moving parts. The potentially more important development from this same research program is the direct conversion of heat into electricity.

Both of these advances depend on two complementary phenomena. Cooling without electric motors, compressors, and all the other paraphernalia of conventional refrigeration is due to the Peltier effect, the cooling or heating that takes place (depending on the direction of current) at the junction between two dissimilar metals when current is applied. Direct conversion of heat into electricity is based on the obverse effect. Over a century ago, Seebruck discovered that when a bi-metallic junction is heated, current flows. Because of the close relation between the two effects, research on more efficient materials for both goes hand in hand.

Westinghouse's new ceramics, made from materials as common as those that go into tableware, can much better withstand the high temperatures at which conventional generation equipment operates than the metals and semiconductors hitherto considered for direct conversion of heat into electricity.

Development work with the new ceramics is in the early stages and they are still too inefficient to compete with conventional equipment. However, some special applications could be found for them in light, compact power sources. For example, they could compete with solar cells, the semiconductor batteries that are just coming into commercial status. Solar cells depend on the catalytic effect of sunlight to generate electricity, while the thermoelectric ceramics can convert the heat of the same sunlight into power.

In this country RCA was the first to demonstrate large-scale cooling by the Peltier effect two years ago. Its development work in the field is now conducted at Whirlpool Corp., a St. Joseph, Mich., subsidiary. Officials there told DR&MI that their research is keeping pace with that of Westinghouse, and that they have made some advances of their own.

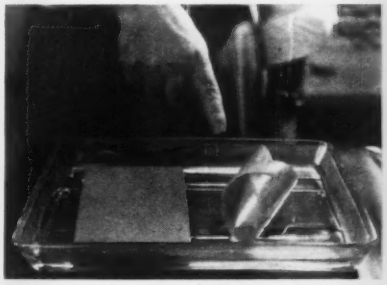
Franklin Institute in Philadelphia, General Electric, and Carrier Corp. are some of the other organizations that are also neck deep in thermoelectric studies. GE has been supplementing thermoelectric production of electricity with thermonic research—boiling electrons right out of metals, another approach to direct conversion of heat into electricity (DR&MI, January 1958, page 73). However, Dr. Guy Suits, GE's Director of Research, believes any commercial use is still decades away.

Petroleum-proof Rubber

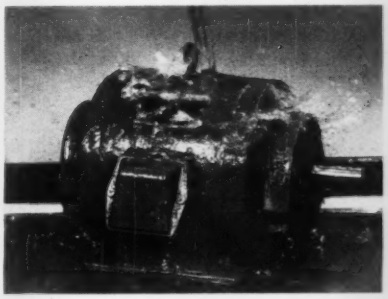
When silicone rubbers were first marketed years ago they were hailed for their high- and low-temperature performance. But, like natural rubber, they had no resistance to petroleum products, swelling up like blowfish (see photo) whenever they came in contact with gasoline. Now General Electric has developed a modified silicone that absorbs scarcely any gasoline. Called nitrile silicone, the new rubber has the same flexibility as silicone from −100° F to −500° F. Initial applications will be in aircraft, but many others should appear as the cost drops from the initial cost of $15 a pound.

Updating Diesels

The nation's cash-hungry railroads have been able to send their hard-working diesel locomotives back to the factory for "upgrading" because of a policy decision made twenty years ago at GM's Electro-Motive Division. Because the designers have stuck to the same bore and stroke on all sizes of diesel engines, the horsepower rating of older engines can be boosted to that of the latest versions with comparative ease. And in addition to reworking the engines, the factory rewinds the generators and traction motors and replaces



PERMANENT WAVE: *Ordinary silicone rubber swells and curls when placed in gas, while this new nitrile silicone is barely affected. A product of General Electric's twenty-year-old research program on these rubbers, they remain flexible over a greater temperature range than other rubbers.*



WATERPROOF: *Humidity and water used to be the great enemies of electric motors, but the latest models, such as this Reliance Electric (Cleveland) AC motor, can practically run submerged. None of the insulation materials used absorbs water. As a result, heavy casings are no longer essential.*

SNAP-ON INSULATION: *These National Aniline urethane foam insulating sections can be quickly slipped around refrigeration lines and low-pressure steam lines. Unlike many insulation materials, it's not fragile and water does not damage it. Moreover, the heat can leak out from only one seam.*

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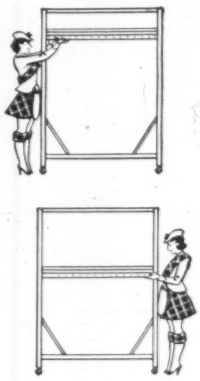

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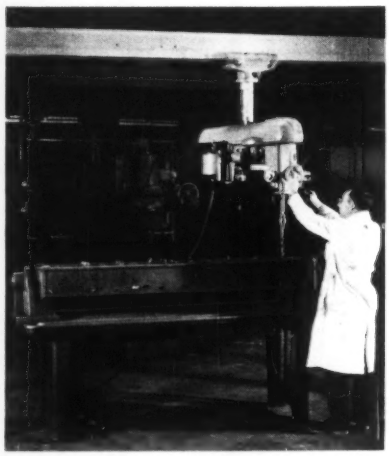

MAHOMET TO THE MOUNTAIN: *When the workpiece is too big, bring the machine tool to it. This new accessory attaches a drilling head to the overhead tracks commonly found in heavy metalworking plants. A product of Delta Power Tool, Pittsburgh, the accessory can swing the drill around a 10-inch radius.*

the control equipment with the latest designs. Thus a diesel locomotive nearly twenty years old can be sent back for rebuilding to the equivalent of a brand-new locomotive of the latest design at a considerable saving over the cost of a new unit.

One thousand locomotives have already been upgraded, and there is a potential market of 7,000 more. The program pays off for Electro-Motive because its engine assembly line is organized to work on either new or upgraded engines.

Coming: Electrofluids

A new class of engineering materials —fluids whose viscosity depends on the electrostatic charge across them—should greatly simplify the control of power equipment. Invented years ago, the fluids are now being offered in experimental quantities by Warren Electric Brake and Clutch Company, Beloit, Wis.

In contrast to a remotely related fluid filled with magnetic particles, these fluids need only micro-ampere currents to react instantaneously to applied voltage.

They should greatly simplify the manufacture of brakes, clutches, automatic transmissions, and other mechanical control devices. Equipment costs should drop too. Already, one of the Big Three carmakers is enthusiastic about these "electrofluids," as they are called. Other applications include high-speed relays, shock absorbers, and non-magnetic clutches. The Warner Company still has to do a lot of research into economical production of the fluids, but it is prepared to ship four-ounce samples—at $20 a bottle. —M.M.

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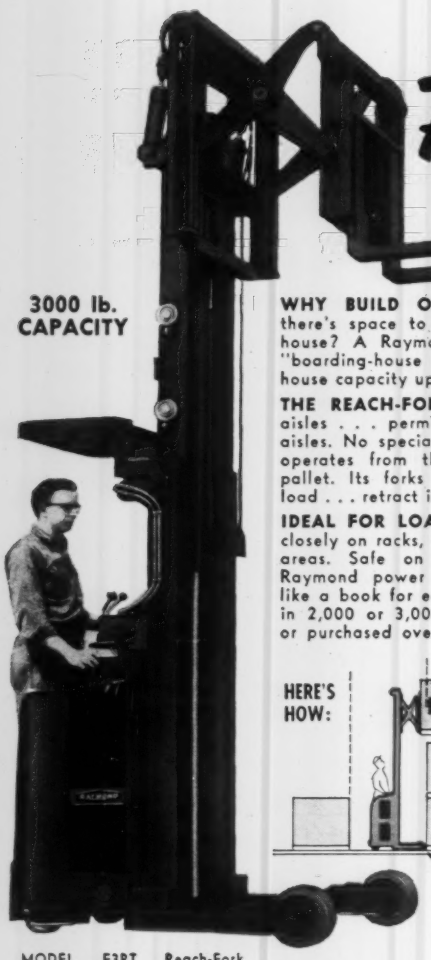

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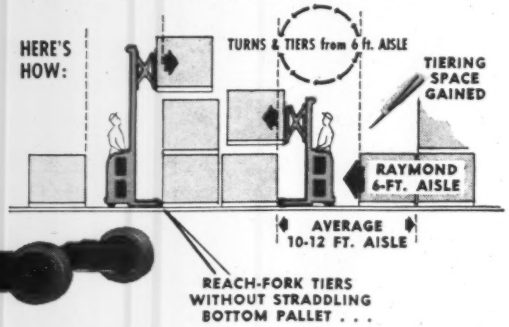
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Bureaucracy in Business

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In disputing the "organization man" theory, Professor Dimock outlines a combination of ethics and actions for administrators to follow to encourage the growth of outstanding individuals.

Making Research Profitable

MANAGEMENT'S STAKE IN RESEARCH *by Maurice Holland and Contributors. Harper & Brothers, 49 East 33rd St., New York 16, 143 pages, $3.50.*

A down-to-earth report on how industrial research is used as an essential tool of management. It answers by example front-office questions on use, cost, and results.

Detroit Assailed

THE INSOLENT CHARIOTS *by John Keats. J. B. Lippincott Company, East Washington Square, Philadelphia 5, 233 pages, $3.95.*

A ripsnorting attack on Detroit's current pricing and styling practices, which largely ignores the possibility that consumers are getting about what they have asked for.

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THE BATTLE FOR INVESTMENT SURVIVAL *by G. M. Loeb. Simon and Schuster, Inc., 630 Fifth Ave., New York 20, 311 pages, $3.95.*

A practical how-to-do-it manual for the "hardheaded few" who can survive the hazards of Wall Street speculation, with tips on protecting capital.

Organizing an EDP Program

INSTALLING ELECTRONIC DATA PROCESSING SYSTEMS *by Richard G. Canning. John Wiley and Sons Inc., 440 Fourth Ave., New York 16, 193 pages, $6.*

Case histories of how companies control the high cost of installing EDP systems. Non-technical language and plentiful illustrations ease the way.

Why They Buy

CONSUMER BEHAVIOR: RESEARCH ON CONSUMER REACTIONS *edited by Lincoln H. Clark. Harper and Brothers, 49 E. 33rd St., New York 16, 550 pages, $6.50.*

The fickle behavior of the American consumer is scrutinized by specialists in anthropology, economics, marketing research, psychology, sociology, and statistics.

GROOMING YOUR COMPANY

continued from page 33

way a Buffalo industrialist characterizes the situation. The attorney for several Chicago metal manufacturers claims that the number of buyers has actually increased because slower business has made some companies more liquid, freeing more funds for acquisition purposes.

Whatever the change in their number, today's buyers are more discriminating. They look more closely at liquidity and earning power, and definitely favor established, profitable companies with competent marketing and operating management, rather than tax-loss situations or companies that need reorganization.

To sum up the supply-demand situation: Should you look for a business to acquire, you are likely to find that values may be somewhat better but that the 1958 recession has not resulted in any notable bargains in companies for sale. The best values were too thoroughly picked over during the merger boom of the past decade. For the relatively few good buys available, you'll meet stiff competition from well-financed, serious-minded companies that, like yours, want to diversify by acquiring a going concern.

Sellers can be choosy

Since they're in a strong competitive position, owners of profitable businesses can demand exacting terms when they sell out. Price, of course, is important. But often it's not the sole consideration. In an outright sale on a payout plan, the seller naturally wants assurance of the buyer's financial ability to continue payments until the full purchase price has been met. But if a merger of interests, rather than a sellout, is contemplated, the seller is interested in the buyer's marketing strength as well as in his finances.

Many sellers, apparently, are deeply concerned that the businesses they have built should enjoy a future as part of a stronger organization. Owners of a successful business can afford to ask searching questions of a would-be buyer: How well would key personalities of both organizations work together after the merger? Would duplication of personnel and facilities threaten the future of people with whom the selling owners have had close personal ties for years, or the usefulness of plants they have come to regard almost as part of themselves? Is the buyer able to contribute enough ability to give the acquired organization reasonable prospects of continued success?

Asking questions like these—and not accepting a diversification partner unless the right answers are forthcoming—is as much in the interest of the buyer

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as it is in that of the prospective seller.

"A lot of companies have found that indiscriminate acquisition is not the magic path to profits." This verdict of one Ohio industrialist sums up the sad experience of many.

In the words of a Los Angeles management consultant, "Mere acquisition of an entirely new business does not assure continued profit for the merged company." Learning from the mistakes of others, intelligent buyers are beginning to think more in terms of strengthening their marketing picture and rounding out their lines, rather than just "diversifying."

THE AUTHORS • John C. J. Wirth is President and Thomas J. Carley is Secretary-Treasurer of Wirth Management Company, Norwalk, Conn., management consultants specializing in market research, marketing, diversification, executive training, and financial planning.

Mr. Wirth is a graduate engineer with a legal and accounting education, a background in sales management and new product development. Mr. Carley is an attorney and accountant. The concern has provided counsel to several companies that have been parties to recent important mergers. The "feel of the pulse" they present here is based on correspondence with several hundred persons active in the field: business and industrial brokers, investment counselors, bankers, consultants, attorneys, and officers of listed and unlisted companies.

A good time to buy?

The boom's aftermath has produced a more cautious, more questioning attitude on the part of purchasers. Is it the right company? Is the price right? And is this the time to buy?

Some believe today's buyer can get his company at a somewhat better price. "Basically sound companies can be bought for less than in 1954–57," reports a Pennsylvania industrialist. A New York economist points out that temporary distress may occasionally put a good company on the block at a price that represents unparalleled opportunity for the right buyer. But opportunities to acquire high earnings at bargain prices are still few and far between.

During the boom, all companies looked good. Now it's easier to measure the significant factors. If cyclical stability is a diversification objective, this is a good time to determine if an acquisition prospect possesses that quality, according to a steel company executive.

Sellers of the more desirable properties are interested, not only in the price the buyer can offer, but also in the company's personalities, prospects, and distribution "muscle." Thus, the well-managed company seeking to win a diversifi-

cation mate in competition with larger, better-heeled buyers may still have an edge—just as the poorer suitor with brains and personal charm may stand an excellent chance in courting an heiress if he makes the most of his strong points, tangible and intangible.

Grooming your company as a desirable buyer may do more than make it possible to interest sellers who otherwise wouldn't even consider you. Proper preparation and presentation of your tangible and intangible assets may also help you acquire a business at a better price, or on contingent terms, so that fixed debt won't saddle your company with unduly heavy burdens for years to come.

Since the owners of the company you may want to buy are likely to examine your business as closely as you'll inquire into theirs, now is the time to start putting your house in apple-pie order.

Of your tangible assets, plant and equipment are of first importance. Merger terms may be based on book values of buyer's and seller's properties. You may also find it advisable to improve your current ratio position, in the event that the acquisition is to be wholly or partly for cash, or if the company you want to buy is long on earning power but short on liquid assets. And doing all you can to improve operating efficiency will strengthen your position when you and the seller sit down to negotiate.

Now is also the time to examine your intangible assets with as calculating an eye as the canniest of buyers. Do your present markets provide at least the foundation for long-term growth? Does your executive team make a good showing? Can you show evidence that your organization has competence in developing products and markets? Is esprit de corps high? If a prospective seller senses poor morale when he visits your office and plant, he may shy away on that account alone.

A high return on investment, a substantial percentage of sales carried through to net income, a growing share of the total market—all mark your company as a good one to join up with. If your company has securities traded on the open market, its intangible strengths, properly developed and publicized, are also likely to be reflected in a higher market value.

"Do it yourself"

On the other hand, if you're a potential buyer and can't find the business that fits your diversification objectives, you should be able to create what you need in other ways. Buying a ready-made business that fits but imperfectly into the better-rounded, more profitable, more dynamic future shape you envisage for your company is not the only or necessarily the best way to

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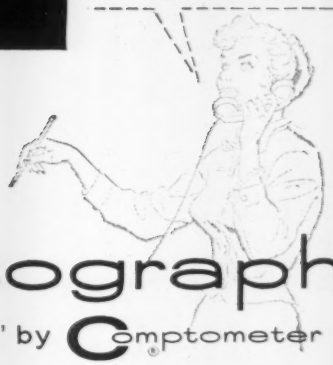

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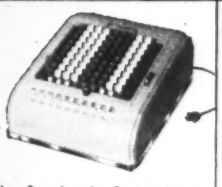

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diversify. It may take somewhat longer, but you may diversify more effectively from within than from without.

Diversification alternatives to acquisition are several, as the accompanying list suggests. Consider all the courses of action before you decide which one—or which combination of methods—is right for you. There's no single "best" way to diversify. It all depends on the individual company, the circumstances, and the time.

Start planning now

How do you know that this is the time to buy a company, develop a new product, or even attempt to diversify at all? You don't know, unless you have carefully reviewed your company's present status and future objectives, and then mapped out a master plan to take you from where you are to where you hope to be. When you have developed a basic plan, it may or may not include business acquisition as a means of reaching your objectives.

Successful diversification, through acquisition or internal development, can't be accomplished overnight. That means you should start planning now if you want to take advantage of present conditions and put your company in the best possible shape for the future's exciting opportunities. Business leaders agree that the 1958 recession has been a breathing spell before the economy leaps ahead to unprecedented high levels of activity in the 1960's.

True, you have to meet the day-to-day problems growing out of intensified competition and continued high costs, but you must not forget the long-range planning that brings solutions of a fundamental, lasting nature and can open the door to immensely profitable expansion opportunities.

In many acquisition-minded concerns, the top executive officer or chairman of the executive committee heads up the investigation and negotiation of merger possibilities. In other companies, where acquisition is merely one phase of the larger growth plan, one of the senior executives is chosen to nurture likely acquisition prospects. He may be a vice president of administration, sales, finance, or engineering, or he may be assistant to the president—but he will also carry the unofficial title "vice president for diversification."

Some companies intent on the broader aspects of long-range planning will have this function set up under a staff vice president who is responsible for the planning or theoretical aspects of financial, sales and profit position. The actual work of carrying out the plan is then done by a line executive, most probably the chief executive officer.

The marketing vice president is another possible choice. Today, marketing concept may encompass not only sales management, merchandising, advertising and package design, but also responsibility for creating new products through acquisition or development.

In one company, the function of acquisition is set up under the corporate secretary, who is also vice president for administration. As "vice president for diversification" his job is to cultivate companies that might be added to the corporate family. Another officer, the sales vice president, is responsible for all marketing functions, and one of his staff, the "new product sales manager," for product acquisition through redistribution or other arrangements. In addition, the sales vice president serves as chairman of a marketing committee, which has the over-all responsibility for continuing the do-it-yourself plan of market and product extension and executive development.

A veteran consultant advises, "There are more opportunities around us today than anyone will ever take advantage of." He says that everyone who achieves success must credit good luck as an important contributing factor, but adds that "the fellows who work the hardest seem to have the most luck."

DIVERSIFICATION MEANS MORE THAN ACQUISITION

continued from page 32

der private label brands on a reduced royalty basis. It is worth noting that earnings from these franchising operations constitute an important part of one company's earnings.

In recent years the soft ice cream road stands, operating under a common name, have offered broader territorial coverage than any regionally restricted ice cream manufacturer.

How to proceed: Approach the matter of broadening earnings through franchising with statistical market analysis. Organize an orderly search for likely candidates able to sell your products and accept the franchise responsibilities. Don't overlook foreign markets.

Creating new products

Only the larger companies can afford fundamental research for the development of new products. But the adaptation of new technology developed by others, combined with the knowledge of consumer demand, can create the product base.

Examples: "Push button" toothpaste was ingeniously conceived on the golf course by two men who coupled marketing know-how with the technical knowledge that nitrogen, a low cost propellant, was insoluble with viscous-aqueous solutions (toothpaste) and solved the valving problem caused by the foaming action of other propellants. This product is providing an additional earnings base for companies whose tube-type toothpaste sales had been lagging.

The technical development by larger companies of polyurethane foams, coupled with the know-how of the do-it-yourself market for paint, culminated in a new paint roller.

How to proceed: Organize regular contacts with large companies that are constantly developing new materials. These contacts should be made by people trained to recognize applications of the new materials to old products and market needs.

Improving present products

An unchanged product will run through the usual life cycle of growth, maturity, and eventual decline. In order to prolong the maturity and profitability of the product, it should be improved from time to time. The changes need not be of major proportions.

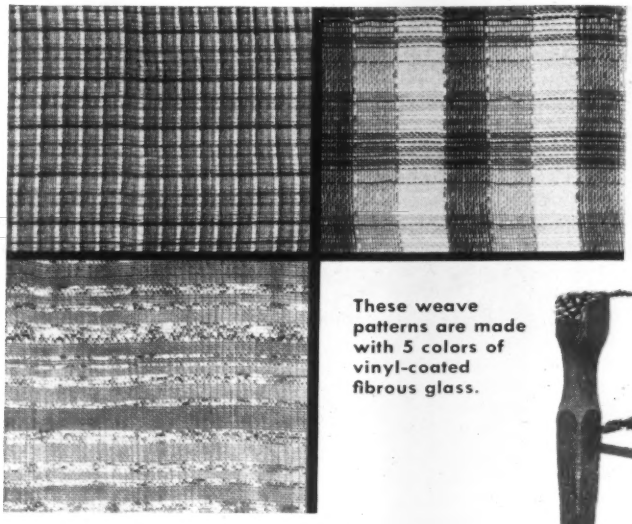
Examples: A manufacturer of kerosene space heaters discovered he could make a new product with existing tooling. Now he markets his old kerosene tank with a new coat of paint and a new spout as a portable gasoline container for outboard motor enthusiasts.

A metal lath manufacturer faced a declining market because of the development of other surface wall materials. He modified the flat sheet to a structural design, producing a complete curtain wall that, when coated on both sides at the job, is less costly, more durable and attractive than competitive materials.

Everyone is familiar with the new three-pronged plugs used on air conditioners and portable electrical tools and equipment. This innovation has opened a new market for special adapters and outlets or receptacles to accommodate the new plug. The development is a result of industry action. Supporting manufacturers were able to modify existing dies previously used for the more conventional two-wire receptacle. An improvement which affords greater safety to the consuming public has thus been a bonanza for the wiring device industry.

How to proceed: Improvement of present products depends, to a great extent, on the ingenuity of your engineering and sales staff, guided by market-minded management. Creativity can be stimulated by brainstorming sessions, where all ideas, whether sensible or seemingly nonsensical, are thrown into the discussion and evaluated by management against changing market conditions and industry standards. END

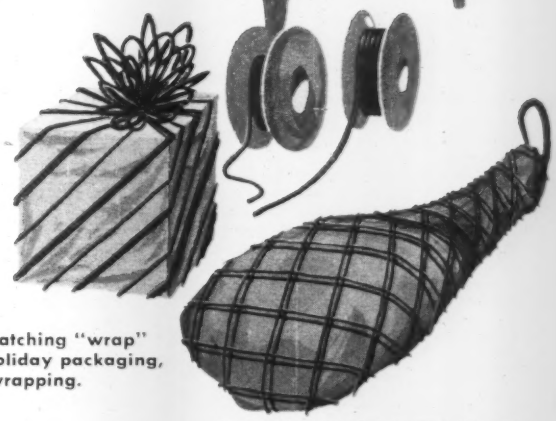
A NEW WAY TO UPGRADE YOUR PRODUCTS: VINYL COATINGS



These weave patterns are made with 5 colors of vinyl-coated fibrous glass.

This "deck chair"* is covered with vinyl-coated string, woven to a high-style "net" that is tough, colorful, weather-proof.

Highly decorative vinyl-coated string can make multicolor net bags and carry-alls.



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THE NEW WELFARE AND PENSION LAW

continued from page 42

of public investigations and legislative wrangling. Disclosures of wholesale looting in the handling of collectively bargained welfare funds brought out in a New York State Insurance Department probe gave early impetus to a demand for some kind of public intervention to protect the interests of employee beneficiaries. Phony service fees, brokerage kickbacks, falsification of records, or outright embezzlement were uncovered with disturbing frequency.

The same pattern of plunder turned up when House and Senate investigating committees took up the probe on the national level. To cite a few instances:

- In two and a half years, a Newark, N.J., "insurance agent" for a union, operating in collusion with a high union official, intercepted over $900,000 of premiums en route from the union to the insurance company.
- A Knoxville, Tenn., union collected $129,000 from its members for a "welfare fund" from which, it was admitted, not one cent was paid in benefits.
- A Chicago union which assessed companies for welfare contributions gave no accounting, either to the employers or to the union members, for the funds. The money was diverted to general union purposes or used by the union president for lavish gifts and fancy trips.

Most funds, of course, have been honestly handled. In others there is no thievery, but administrative practices are haphazard.

The very magnitude of the employee benefit plan operation suggested the desirability of providing safeguards of some kind. According to a House Labor Committee report this year, it is estimated that almost 80 million persons in this country (including relatives of employees) now have some kind of protection under private employee benefit plans, and some $30 billion is held in private pension funds. Despite the growth of plans resulting from union negotiations, it is believed that over 90 per cent of those covered by welfare programs are under plans offered unilaterally by employers.

When it became evident three or four years ago that the extent of the looting and malpractice in some funds required a legislative remedy, a question soon arose: What types of programs should be covered by Federal safeguards? Should legislation extend only to the joint union-management type of fund, where the corruption had been found, or should *all* benefit programs be included? The unions took the stand that they would support appropriate clean-up legislation only if it covered employer, union, and joint plans alike.

Employer organizations argued that controls should be directed only to the joint union-employer funds, since that was where the abuses had occurred. They stressed that in the employer-sponsored programs the investigations had failed to disclose any shenanigans of the kind that kept cropping up in the joint funds. Business groups saw no sense in subjecting company plans set up and run voluntarily by employers to the burdensome reporting and disclosure procedures just to get at trouble that existed in a different kind of program.

But Congress was not moved by this plea. Far more compelling to the lawmakers was the need to be "evenhanded": if you regulate the union funds, you have to regulate the employer plans, too. This simple logic prevailed over all other considerations.

A significant feature of the law is that it does not charge any Federal agency with general responsibility for administering its provisions. The role of the Labor Department is limited essentially to receiving, filing, and making available for inspection the plan descriptions and annual reports which must be filed. The Department is directed to prepare forms for filing these descriptions and reports, but their use is not mandatory.

Six states thus far also have adopted laws dealing with welfare and pension plans disclosure. Many business groups had urged that the states, through their insurance and banking departments, rather than the Federal Government, were best equipped to cope with the abuses that had arisen. The new Federal law in effect disavows any intent to preempt this field of regulation. Employers in states that have their own disclosure arrangements will have to file reports both with Washington and with their own state agencies. However, under the Federal law no state (other than the one in which the plan maintains its principal office) can require the administrator to submit data which is reported under the Federal program, as long as copies of the Federal reports are filed with the state agency and desired information from them is distributed to covered employees.

There will be strong pressures to amend the law next year. President Eisenhower, who signed the bill reluctantly, complained that it fell far short of the kind of measure he wanted. He served notice that he would like to see it extensively amended in the next session to deal more directly with abuses like kickbacks and embezzlement and to give the Secretary of Labor power to police benefit plans.

—HORACE E. SHELDON

OTHER PEOPLE'S MONEY

continued from page 35

ent, and there are a host of other considerations that management should take into account. Let's examine the two areas separately.

Both large and small companies are currently profiting from rental of an immense variety of tools and industrial office equipment. With an estimated 30 per cent of working capital now tied up in inventory, with new wage contracts to be negotiated in coming months, with pressure to promote products more heavily to capture added sales, the allocation of corporate funds is rapidly becoming one of management's greatest headaches. Before you, as management, decide whether your company should expand with company funds or on borrowed capital, ask yourself the following questions:

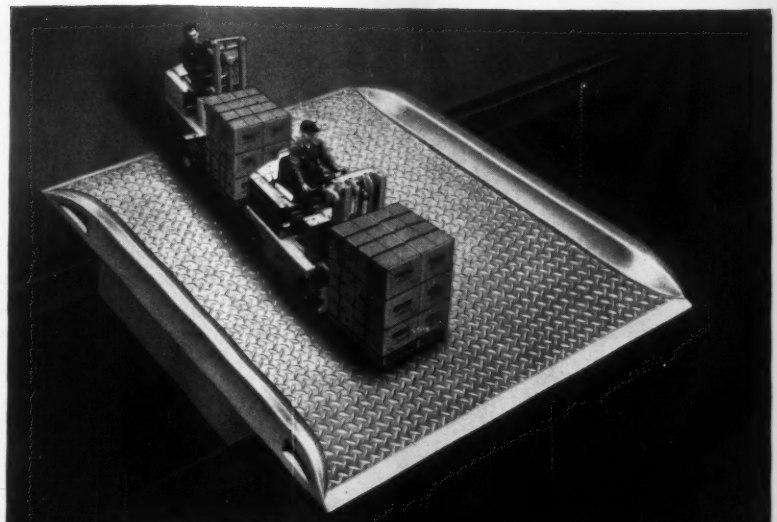
1. How would purchase affect my company's capital position?

Many companies are simply not in a position to incur further debt. And even if a company can borrow, it may feel that long-term debt could discourage new investors and make new equity financing difficult. Available funds might also be put to more constructive use. Research, inventories, staff and plant forces could be augmented; promotional activities could be expanded. How can you be sure that leasing equipment will permit your company sufficient return to meet these objectives?

Take the case of a highway construction contractor, who would have found it impossible to purchase new equipment needed to fulfill a large road building contract, since either a cash purchase or debt financing would have reduced his net working capital ratio to a figure below that required by his bonding company. Unless he leased, therefore, he could not accept the contract. In addition, leasing meant that he would not be saddled with the equipment. Other contracts for the same type of work were not forthcoming. Thus, leasing the equipment was the obvious answer for the contractor.

2. Would new equipment save my company money?

There may be no saving in some cases; in others it may be substantial. A small carpet mill, for instance, discovered if it were to price a new product competitively it needed new equipment to bring down manufacturing costs. But purchase of the equipment would leave less money for the promotion of the new line, which the company had to have to retain its position in the industry. Company officials discovered that the new machinery would pay for itself in three years. In many instances, rental for three years is equal to the price, but in this case, they found, it would amount to only 75 per cent—less the amount



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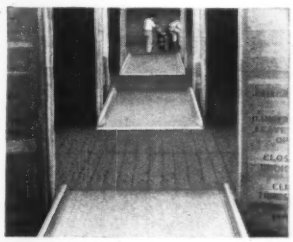

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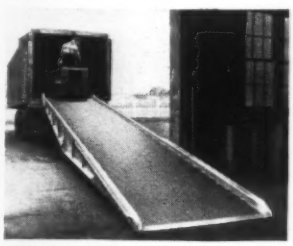

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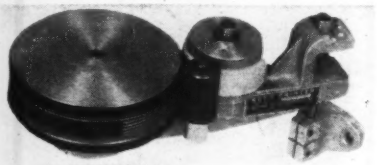

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they could save by deducting rent payments from the company's income tax return. Considering that the first year's rent amounted to somewhat less than 30 per cent of the purchase price less tax credit, the company felt it realized a considerable saving as well as conserving cash.

3. How long will the particular equipment be required? How quickly might it become obsolete?

One of the chief arguments in favor of renting, especially where equipment is needed for Government work, is that a company may not require a specific type of equipment after a certain number of years. The most popular leases currently being written are for three-to-five-year periods.

Leased office equipment is growing in popularity, not only because purchase of complex electronic brains could deplete working capital, but because of the possibility of obsolescence and the fact that the manufacturers service their machines. Interesting enough, much office equipment—big and small—is custom built to the lessee's specifications.

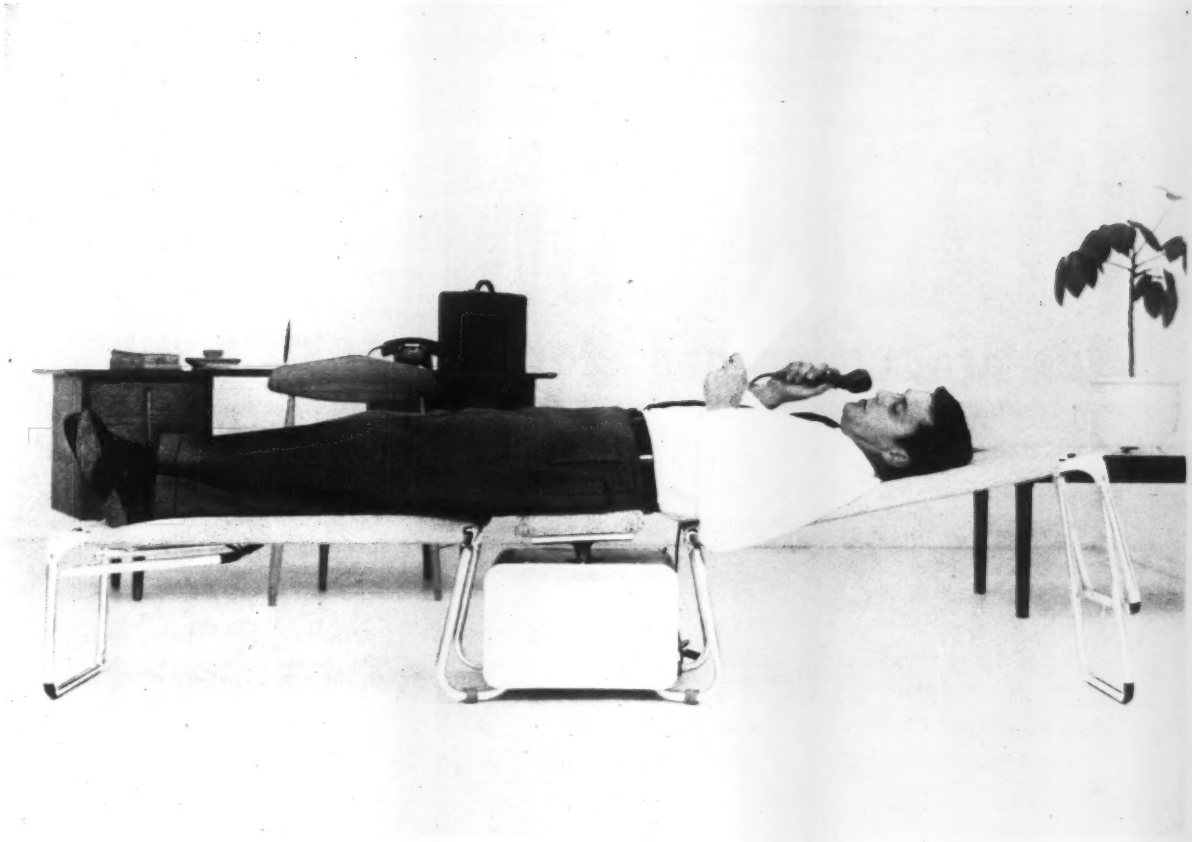
THE AUTHOR • Faye Henle got her start in business writing on *The New York Journal* of Commerce and went on to become a well-known freelance writer. Her byline has appeared in a wide range of business and consumer magazines, and her syndicated column, "Your Pocketbook," is currently appearing in the *New York World-Telegram & Sun* and some 100 other papers.

Not a tax dodge

Many a company is sold the idea that renting equipment provides a tax advantage. This rarely works out. If you are renting, make certain your contract is a true lease—one in which there is no intent to purchase. Be sure that this lease complies with the Internal Revenue Service's rulings 55-540-541-542. If the Internal Revenue Service rules that your lease is a conditional sale, the rentals are not deductible in the year paid.

There are other tax pitfalls too. David L. Salinger, director of the industrial division of Walter E. Heller & Company, Chicago, warns: "If you are leasing you must be certain that tax deductions from current income are allowable and are larger than the amounts deductible as depreciation if the equipment were being purchased. If the deductions are not larger than depreciation, then obviously this is not an advantage you can consider when deciding to lease."

Since the Internal Revenue Service is out to eliminate the use of rentals as a tax dodge, Mr. Salinger declares that your contract may be safer if, for example, rates are specified for the use of the



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A GROWING PROBLEM for Management is that of executives who are becoming overwrought—probably overweight—and losing their grip on their jobs. They're experienced, expensive to replace...and their health is of real concern to their firms.

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All this is accomplished with the help of the unique Office Gym®. Perfected at the famous Stauffer Laboratories, it is the heart of the Stauffer Executive Fitness Program of effortless exercise and calorie reduction.

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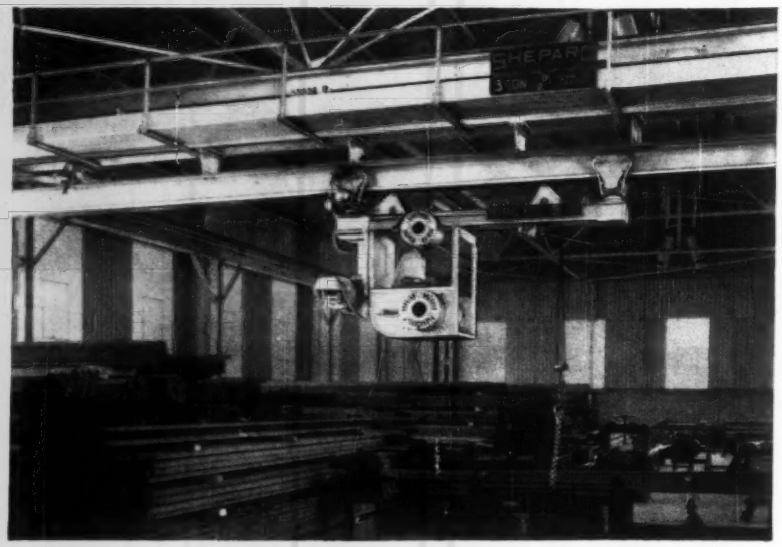

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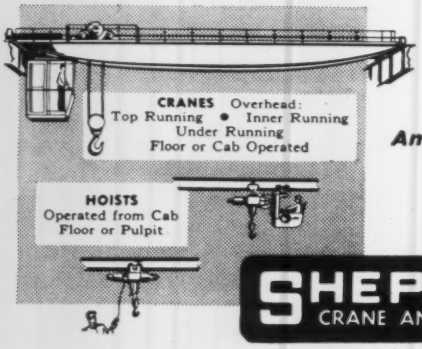

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equipment on an hourly, daily, or weekly basis, mentioning surcharges for overuse expressed in terms of units produced, mileage, or tonnage hauled.

He also points to the usefulness of termination provisions in the lease and notes that the Internal Revenue Service "likes an absence of option to purchase, or if there is such an option, one that bears no relation to the amount of rentals paid but only to the value of the leased equipment at the time of exercising option."

It doesn't always pay

While the tax angle provides no argument in favor of leasing, it is no argument against leasing either. However, there are some less favorable aspects to leasing you should know about.

Smaller manufacturers may find it difficult to lease equipment that is not standard and in widespread demand, although such leasing specialists as Boothe Leasing Corp. and U.S. Leasing Corp. and many equipment manufacturers strive to render tailor-made jobs for their clients.

The chief disadvantage of leasing is that, if the leased equipment does not provide the anticipated income, the heavy fixed charges could mean sharp losses. You should also consider carefully the financing of leased plans.

Borrowing from banks

A company that is thinking about leasing equipment should first discuss the feasibility of a loan with a commercial bank, since bank rates generally are lower than those offered by leasing companies. If a loan with a commercial bank is impossible—and banks, for the most part, shy clear of leasing deals unless they are substantial (say, for a fleet of tankers or a string of filling stations) —weigh the pros and cons of installment purchase versus leasing. Don't, however, feel slighted when your banker turns you down. Under the terms of their charters, banks are not usually permitted to hold title to equipment other than for security of a loan. After the loan is paid, the title reverts to the borrower.

There are two avenues through which you can lease. Some equipment manufacturers rent as well as sell their product. Then there are commercial leasing companies. If you have the choice, and this depends upon what it is you are leasing, check both methods. Both manufacturers and leasing companies offer a variety of leasing arrangements, and considerable time should be devoted to determining which would serve you best.

The total cost of any lease depends on the method of financing. If earnings from the leased equipment will be greater in the earlier years of the rental contract, it makes good sense to pay higher rental charges during those years and

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SOUTH PACIFIC
PO Box 3339
Rincon Annex
San Francisco, Calif.

SOUTHWESTERN: 1114 Commerce St., Dallas, Texas

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1. Cornhusker Ordnance Plant, Grand Island, Nebr.
2. Iowa Ordnance Plant, Burlington, Iowa
3. Kansas Ordnance Plant, Parsons, Kansas
4. Lake City Arsenal, Independence, Mo.
5. Nebraska Ordnance Plant, Wahoo, Nebr.
6. Rocky Mountain Arsenal, Denver, Col.
7. St. Louis Ordnance Plant, St. Louis, Mo.
8. St. Louis Ordnance Steel Foundry, St. Louis, Mo.
9. Sunflower Ordnance Works, Lawrence, Kansas

NORTH ATLANTIC
1. Birdsboro Ordnance Steel Foundry, Birdsboro, Pa.
2. Burlington Ordnance Plant, Burlington, N. J.
3. Edgewood Arsenal, Edgewood, Md.
4. Ordnance Assembly Plant, Edgewood, Md.
5. Radford Arsenal, Radford, Va.

NORTH CENTRAL
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2. East Chicago Ordnance Steel Fdy., East Chicago, Ind.
3. Joliet Arsenal, Joliet, Ill.
4. Kingsbury Ordnance Plant, La Porte, Ind.
5. Twin Cities Arsenal, New Brighton, Minn.
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1. Coraopolis Ordnance Steel Foundry, Coraopolis, Pa.
2. Indiana Arsenal, Charlestown, Ind.
3. Jefferson Proving Ground, Madison, Ind.
4. Lima Ordnance Steel Foundry, Lima, Ohio
5. Marshall Plant, New Martinsville, W. Va.
6. Ravenna Arsenal, Apco, Ohio
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SOUTH ATLANTIC
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2. Holston Ordnance Works, Kingsport, Tenn.
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1. Pacific Ordnance Steel Foundry, Pittsburg, Calif.
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smaller ones in the ensuing years. Often rental charges are based on the lessee's right to terminate the lease within a specific period of time.

Other points to check include: Will additional rent be charged if the equipment is used on second and third shifts? Will freight and installation charges be included in the rental? Does the lessor provide maintenance and service? How much advance deposit is required?

While both companies that manufacture equipment and professional equipment leasing companies are usually competitive in their rental quotations, it might pay to shop around for the best possible deal.

Pay as you go

Then there are additional methods of expanding or modernizing with other people's capital. In the machinery and equipment field, the chief one is installment purchase. Companies, like consumers, are learning to live on installment plans. Since management eventually owns the equipment, it benefits from any residual value when the equipment is no longer needed.

"There can be no general rule which distinguishes between the advantages of leasing or purchasing plans," warns Frank Griesinger, assistant treasurer of Cleveland's Lincoln Electric Company, who has just completed a study of leasing to be published this month as a *Consultant Report* by McGraw-Hill Book Company.

"The new depreciation rules, matched with a conditional sales contract," he says, "may give cash-flow advantages quite comparable with those produced by leasing. Both leasing and conditional sale (installment) financing are forms of debt. Thus, you should ask yourself whether your business should incur additional long-term debt. If you feel you can use your credit in this way, then contrast the timing and costs of your alternative plans and pick the one which seems to benefit you the most.

"Remember that plans may have a similar dollar outlay but be vastly different in their true costs if their payments are timed differently. This is because of your ability to invest your working capital profitably. In general, the plan which permits the longest postponement of payment will have the lowest cost because the sum of its required future payments has the lowest present worth."

Much industrial expansion and modernization currently is being financed by the sale and leaseback of industrial property. Many companies are finding that the best use for their capital is in the financing of expanded sales. Frequently they do not have sufficient capital to do this job and to build the plant facilities they need too. Consequently, a

sale-and-leaseback transaction may furnish added working capital and permit the company to secure a new plant custom made to its requirements.

Other companies with sufficient capital or the ability to raise adequate funds, still seek sale-and-leaseback arrangements in order not to incur any—or any further—long-term debt. (Leaseback arrangements appear on the balance sheet as contingent liabilities.)

Still others, large and small, believe that since their primary business is not real estate, it makes little sense for them to have their capital invested in bricks and mortar.

The ground rules

While the sale-and-leaseback requires a multitude of legal papers—similar to those involved in most real estate transactions—the mechanics are not difficult to grasp. A company may build the plant of its dreams; then, in order not to tie up capital, management finds a buyer—and there are many companies that make a business of this—who will agree to purchase the property and then rent it back for a specified period of time. Many leases run 99 years for an established operation, and some are twenty-year leases, often containing as many as four renewal options. Leases by chain store operators, restaurants, and such are usually for shorter periods of time.

Ideally, in a sale-and-leaseback deal, the amount of cash realized through the sale of property and the money payable as rent under the lease should be established at a level that will give the company long-term financing at a rate it can afford.

Leasing and taxes

There are tax advantages in the sale-and-leaseback arrangement not found in the leasing of machinery and other equipment. A company under leaseback may charge off all its rent payments as a business expense, and these can amount to more than the depreciation write-offs permitted an industrial owner. In fact, if the term of the lease is shorter than the life of the plant as rated by the Internal Revenue Service, the company may sometimes enjoy fast write-off benefits. (However, if the buildings are owned, the company gets a tax deduction for the interest on the mortgage.)

Many favorable sale-leaseback deals are being effected via life insurance companies, pension funds, large real estate brokers, private investors, and leaseback specialists for such bluechip corporations as General Motors, International Business Machines, General Electric, The Borden Company, and, among retailers, The Great Atlantic & Pacific Tea Company, Montgomery Ward, and Sears, Roebuck.

For smaller companies, sale-and-leaseback arrangements are far more

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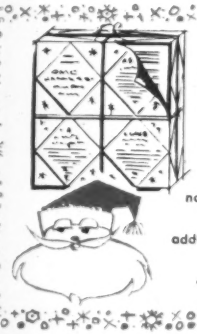

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difficult to negotiate and often can be too costly, warns Louis J. Glickman, realtor and a pioneer in sale-and-lease-back deals.

"If a small to medium-size company is considering such a deal, or the nature of one's business is at all speculative," he says, "before embarking on such a program, management should pick a site that would be suitable to other types of businesses and design a structure whose use would not be too specific in the event that things did not go well for the company originally housed in the building.

"Next, management should consult a recognized mortgage company to see what equity would be needed above what the lending institution will give. Finally, management should investigate the possibility of the sale-and-leaseback terms. Realtors charge rentals based on their confidence in management and its business. If a company's profits run high, its management may be able to withstand the high cost of a lease arrangement—which could run up to 12 per cent of the company's equity, in contrast to 5 to 8 per cent for a blue-chip company.

"Therefore, if management is not absolutely certain that it can meet such rental charges and still make a good profit, then sale-and-leaseback should not be attempted."

Of course, not all small or medium-size companies, by any means, find it disadvantageous to sell property and lease it back.

In the field of transportation equipment, major oil companies lease tankers, coal companies lease barges, the rails lease rolling stock, food processors lease refrigerated trucks and cars, and almost every type of manufacturer and wholesaler, and retailers as well, lease fleets of passenger cars and trucks.

Leasing car fleets

It is estimated that within the next decade fleet leasing of passenger cars by industry and government will take some 33 per cent of annual automotive output. Last year the car-fleet-leasing industry supplied 150,000 new cars to companies.

There are two types of car rental plans. One is popularly called "finance leasing" and is cheaper. Here the lessee pays all maintenance, repair, and insurance costs. Under the second plan, called a "full maintenance plan," these costs are borne by the lessor.

Looking a decade ahead, the experts predict that most businesses will be operating with some portion of their plant or equipment financed by leasing or installment credit. Only unforeseen changes in Federal taxes and depreciation rulings, it appears, will change this trend. END

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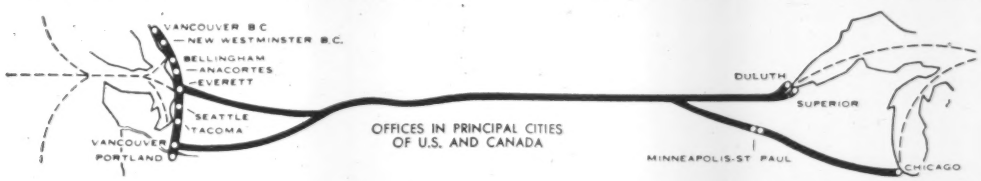

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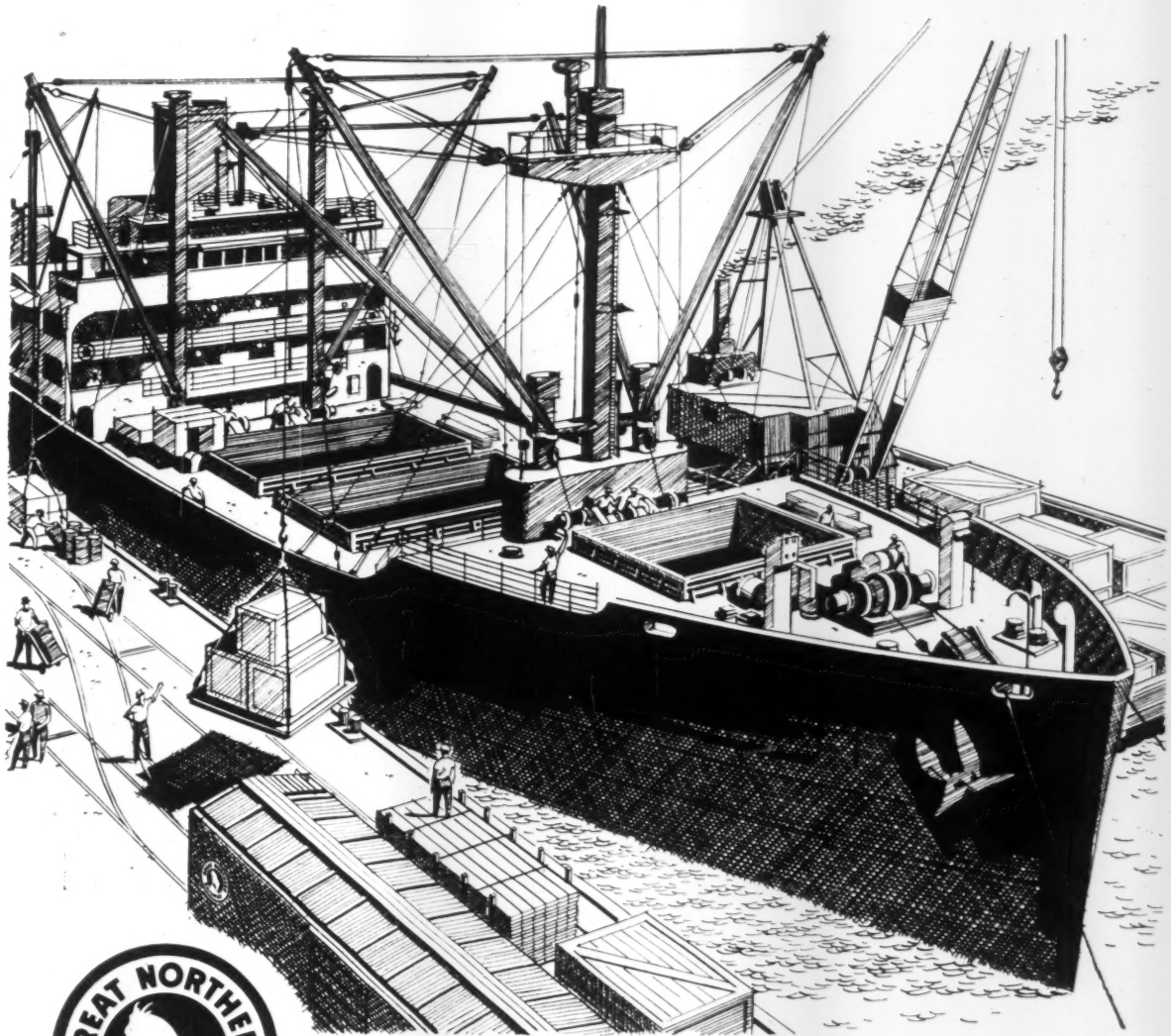

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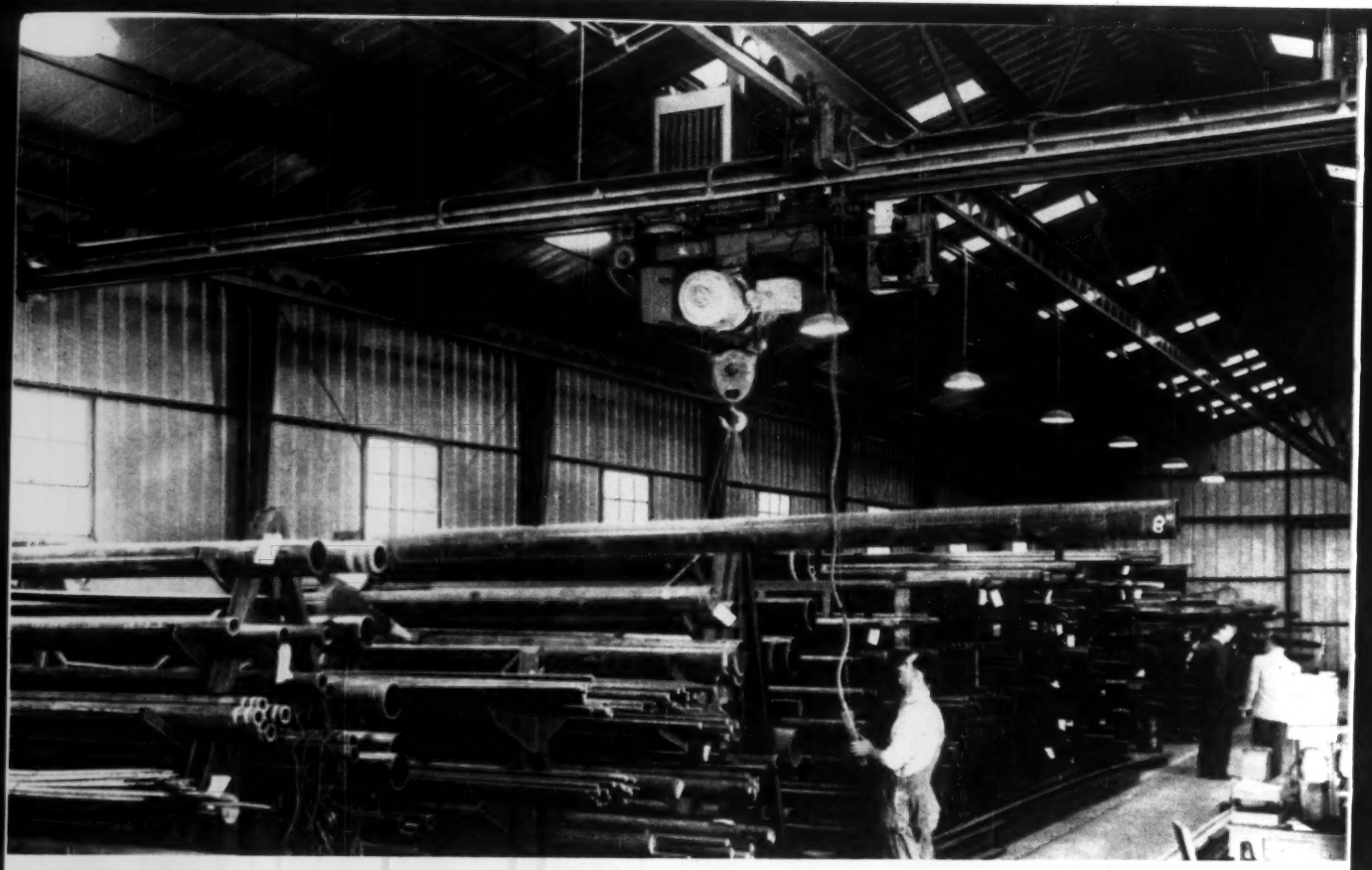

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PAUL WOOTON, ***Contributing Editor***

AMERICAN BUSINESS MEN have more direct contact with the Internal Revenue Service than with all other Federal agencies combined.

Deputy Commissioner O. Gordon Delk, who has over-all supervision of service operations, says the biggest problem facing the service is the handling of returns and refunds on a current basis. Preparations now are being made for the day when it will be necessary to handle 100 million returns, plus 200 million related documents. High-speed electronic equipment is making that objective possible.

Three new tax bills and hundreds of amendments to existing measures passed by the last session of Congress will put

O. Gordon Delk, Deputy Commissioner, Internal Revenue Service

an additional work load on business and the Internal Revenue Service.

A bill "to aid and encourage" small business was expanded into a measure that cuts across the whole tax code. Two other tax bills and more than 100 other "technical" amendments were passed along with numerous changes in excise and social security taxes. In all, there were 300 amendments to revenue laws, some of them retroactive to January 1, 1958.

The taxpayer struggling to master the revised forms will get help soon from a 30-man planning and research organization which is preparing a series of explanatory statements on the new tax regulations.

Formation of the group, which is headed by Thomas C. Atkeson, professor of taxation at William and Mary College and a former Revenue Bureau economic analyst, is one of the most important developments in behalf of the taxpayer in years.

Object: Simplification

Atkeson was called in by the House Ways and Means Committee early this year to give revenue information and advice. He is now exploring ways to make it less annoying for taxpayers to comply with the changes in the tax setup. With his planning and research associates, Atkeson is working out long-range as well as immediate methods for simplifying the filing of the 200 forms taxpayers, in one category or another, now are expected to use. Many of these forms now are scheduled for cancellation. The group's objective is to provide more advice and assistance to taxpayers than has ever been furnished them before.

Deputy Commissioner Delk believes that providing information and assistance to the taxpayer helps to reduce criticism and increase the efficiency of the revenue system.

Educating the taxpayers

Work is being rushed on the necessary revisions of the tax guides, published by the service. More than 250,000 copies of the last issue of the tax guide for small business are in circulation. The press run of the "Farmers' Tax Guide" this year was 1 million. The 1958 edition of "Your Federal Income

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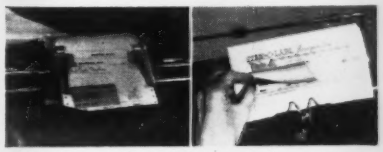

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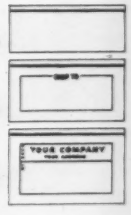

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Tax" for individuals had a distribution of 650,000, of which 600,000 were sold at 35 cents a copy.

Instruction in income tax computation is now a part of the curriculum of 30,000 high schools and colleges. As a result of this educational effort, there was a decline of 26 per cent in 1958 in the number of persons visiting Internal Revenue Service offices for tax assistance.

The Internal Revenue Service conducts classes in "higher education" for its own key people. Tax specialists employed by many large taxpayers also visit these classes.

Efficiency has been increased by making the agency a truly career service. The Commissioner is the only member of the Service who does not have to meet civil service and security standards. Formerly all district directors and many on the Washington staff were political appointees. Regional commissioners and district directors are not policy makers. All policy must have the prior approval of the Commissioner.

Advice from business

In reviewing revenue procedures, the experience and "imaginative helpfulness" of corporation officials are being drawn upon, says Commissioner Delk. The service is particularly anxious, he says, to have their advice on the elimination of less essential requirements and on changes that may be indicated by technological progress. Conferences with business executives have opened new avenues to tax improvement and to the reduction of the paperwork load. These discussions are being continued with different types of corporations, whose problems vary.

An important service to business is the annual publication of "Statistics of Income," which makes available valuable fiscal and economic data shown in tax returns. These statistics, Delk points out, measure the amount and distribution of income and have an important bearing on the determination of tax rate levels.

Internal Revenue has more than 90 million "customers," as Delk calls them, who pay in $80 billion annually.

Congress has added to the complexity of tax laws by the use of ambiguous language and the deluge of amendments. Language in the new small business tax law has given rise to conflicting views on how the rapid write-off is to be applied. Just how useful the write-off will be is also being questioned. A great gain is seen, however, in the establishment of an important depreciation precedent—the three-year carry-back of operating losses which came as an unexpected windfall. Some companies also will benefit by the carry-back and carry-forward improvement in foreign tax credits. END

NEW BARGAINING CLIMATE

continued from page 37

than productivity, appeared to be a major factor in the problem. Some economists went so far as to say that the recession itself could be blamed on labor and the rigidity it had imposed on the national price structure.

Even so, Mr. Reuther gained one important objective. His pre-bargaining feint distracted public attention from the issue of the four-day week and allowed the UAW to retreat behind the smoke screen of the controversy it created, regroup its forces, and come up with another plan of attack more in line with economic realities. By the Fall of 1957, the issue of the reduced work week was a dead duck.

Throughout the Summer and into Autumn, the economy continued its downward trend. Steel production dropped from 75 to 70 to 68 per cent of capacity. Other basic industries were affected. Unemployment rose rapidly.

Walter Reuther, the key man in 1958 bargaining, was in a dilemma. Four hundred thousand of his union members were unemployed. By now, steel operations were down to 48 per cent of capacity. More than 700,000 new automobiles were looking for customers. And the nation watched anxiously for a sign that an economic upturn was on the way.

But, like the horizon, that "upturn" kept retreating. By May it was evident that, though the worst of the recession was over, the economy just didn't have enough bounce to the ounce for instant recovery. This meant that the UAW would negotiate against the wind.

"Spread the profits around"

Walter Reuther maneuvered once again, this time frantically. He announced a bizarre scheme that included profit-sharing, profit control, and a customer rebate gimmick on automobile sales that was as complicated as a French cabinet crisis. Again he made the headlines. But his plan was too intricate for his membership to understand, and UAW members did not endorse the idea with any enthusiasm.

The consumer remained passive, despite the fact that Walter Reuther was offering to cut him in on the take. Management gave the proposal short shrift, contenting itself with pointing out that it had no intention of permitting the UAW to bargain for an arbitrary ceiling on its profits and that, anyway, the notion was economically unrealistic and administratively impossible. The Department of Internal Revenue snorted that Mr. Reuther's proposal would cost the Government millions in tax money.

When the hullabaloo died away, the only remarkable thing about this ven-

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ture into Land-of-Oz economics was Mr. Reuther's conditional acceptance of the principle of profit-sharing, a device to which he had formerly been adamantly opposed.

Other union headaches

This was the situation leading up to the automotive contract talks. But there are many other factors only indirectly related to negotiations which have a direct influence on union activities and are part of the 1958 collective bargaining picture. First, there has been the recession. Its effect on contract talks in Detroit already has been discussed. But it should be considered broadly, for its psychological and economic impact has been profound, not only on labor but on the public as a whole.

Unions faced with diminishing revenues have had internal problems. The UAW-CIO has been forced to dip into its multi-million dollar strike fund to pay administrative expenses. Other unions have been hard put to pay their upkeep. There even have been layoffs of long-time union employees. In fact, the job security of organizers and other persons on union payrolls has been so threatened that they have organized, with NLRB approval, to protect their rights against their union employers. The publicity accompanying these activities has been embarrassing to labor. Moreover, the public, upset by a recession in which everything was going down except the cost of living, has shown little sympathy and given less support for another round of wage increases, which in the past have automatically been followed by higher prices. Even union members were reluctant to take their arguments to the picket line when their main concern was holding on to their jobs in a period of growing unemployment.

Very dirty linen

Another factor has been the exposures of labor corruption by the McClellan Committee. The hearings of this Senate group turned a hot spotlight on the doings of certain segments of labor that once belonged to the old AFL. Officials of the powerful Brotherhood of Teamsters played starring roles in this drama of raw, unlicensed union power, but other groups like the Bakers Union came in for their bit of attention, too.

As a result of all this, Dave Beck was toppled from his throne and Jimmy Hoffa, who succeeded him as head Teamster, is having his legal difficulties. So far they don't seem to be of a kind he can't handle. But his appearances before the McClellan Committee could not have been pleasant experiences even for one with such a convenient lack of recall as the ebullient Mr. Hoffa. Certainly, the long procession of thug-uglies holding important Teamster posts who also testified, or failed to testify, before this Committee did nothing to improve the public's picture of the labor boss.

Nevertheless, Mr. Hoffa still exerts tremendous influence in labor, and he apparently has no intention of letting that power go. On the contrary, he is now busily engaged in carrying out a plan which would bring all transportation workers under his domination.

But the publicity coming from the investigations of the McClellan Committee, although it failed to bring about any basic revision in labor laws, did not put unions in a favorable light. The television spectacle of the arrogant contempt of law and public opinion of so-called labor leaders like Johnny Dio, who took the Fifth Amendment more times than Khrushchev grabs a vodka at a Kremlin cocktail party, hardly created a benign image of unions as champions of the underdog.

Situation well in hand?

Regardless of what was said publicly, union officials privately admitted that the corruption issue had damaged their cause, at least temporarily. After kicking out the Teamsters and several other unions, the best they could do was fight a rear guard action, deplore the conduct of those who had been caught, and demand that the Government keep a hands-off policy and allow them to deal with the situation themselves. And Congress, despite much sound and fury, has done just that. Labor legislation to restrain the activities of corrupt union leaders now seems more remote than ever.

Yet unions, still suffering from the recession, reduced incomes, and management resistance to bargaining demands, are having their problems. Labor is encountering stiff resistance to its organizational efforts, and its win-lose box score on union elections has dropped startlingly. Back in 1948, when a union set out to organize a plant it had an 83 per cent chance of success. Today it is about 58 per cent. That's still on the plus side, of course. But when you eliminate the small companies that put up only token resistance at best, even this figure is misleading.

Labor admits the going is rough. For its failures in the South it blames its espousal of the integration issue. For its setbacks elsewhere it says that it has already organized the easily organized and that the task of bringing in employees of non-union companies is extremely difficult, particularly since management has learned to use countertactics.

What's more, labor claims the National Labor Relations Bureau is biased, and that it is playing against a cold deck where that regulatory agency is concerned. The NLRB stoutly maintains

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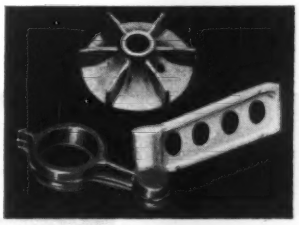

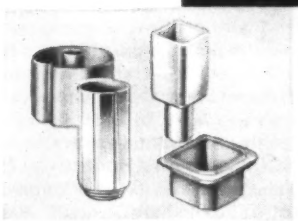

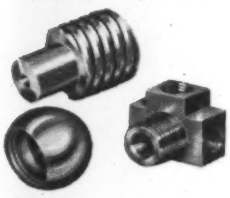

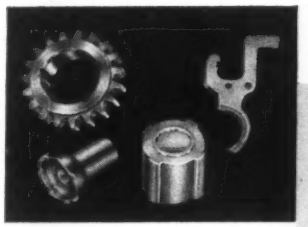

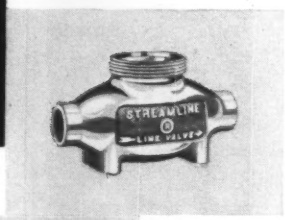

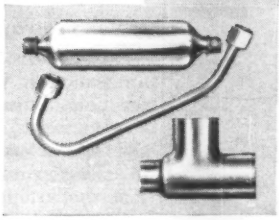

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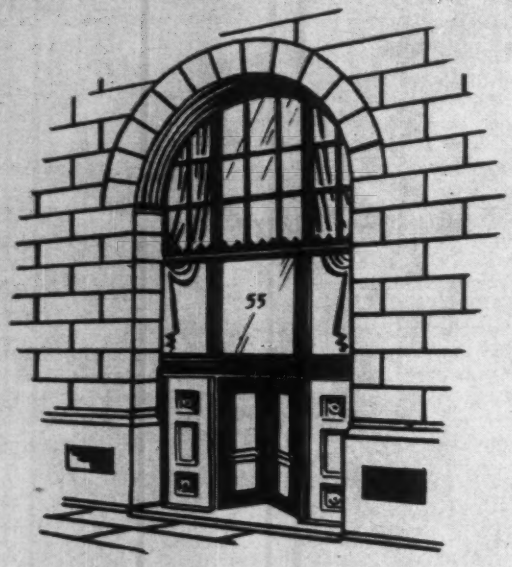

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this charge is irresponsible, inflammatory, and in complete disregard of the evidence that its administration of the Taft-Hartley law has been objective and fair. It has something on its side. For there are those who argue that the NLRB's pro-labor bias has, in effect, repealed the Taft-Hartley act. So the agency has its enemies on two fronts.

Probably the answer to the question, "Why are unions falling down in their effort to win representational elections?" is found in a combination of factors, including most of the reasons labor itself suggests. Undoubtedly, too, the recession has played its part. But just how significant a part is hard to measure. For the trend against unions at the representational election ballot box set in ten years ago and has continued ever since. Clearly, Walter Reuther and the UAW were beset by many problems when negotiations put them in the spotlight.

The opening gambit

The package they opened at the start of the bargaining sessions was priced by General Motors at 73 cents an hour. By the time the contracts were about to expire, the UAW's demands had been whittled down to 49 cents, but industry and the union were still miles apart. The counter offer of the companies was a two-year renewal of the existing contracts—which, in view of existing economic conditions, was not to be sneezed at. Counting the productivity factor and the cost-of-living escalation, it amounted to an immediate 9 cents and 7 cents next year. It was rejected. But industry stood pat, and the waiting game set in.

Mr. Reuther, who is aggressive and used to being on the offensive, does not like to wait. He suggested that the existing contract be extended temporarily so negotiations could continue. The automotive industry didn't bite. General Motors' response was to inform Mr. Reuther that it desired to terminate its agreement, which meant that the company was technically free to shut its plants down if no contracts had been signed by the time the old ones had ended. Ford and Chrysler followed suit. This increased the pressure.

Moving toward stalemate

The UAW's next move was to ask for arbitration on the wage issue. Company reaction to this proposal was obvious. Few concerns are willing to permit outsiders to arbitrate differences on issues in collective bargaining. They consider that the arbitration process should be limited solely to disagreements over interpretations of the various provisions of signed contracts.

And so it happened. The UAW's contracts with the "Big Three" in the automotive industry ran their course. And Walter Reuther was still a long way

from an agreement. Yet the strike, a weapon he had hitherto used so effectively, was temporarily useless. In fact, a work stoppage would even play into industry's hands. The automobile companies could use it to reduce inventories preparatory to the big sales push after model changeovers in the Fall. For the first time in postwar collective bargaining, the pressure was on Walter Reuther. Management had the initiative. The UAW's only recourse was to keep working, despite the fact that it had no agreements, in the hope that it could gain increased bargaining leverage by the time 1959 models were ready to come off the assembly line.

After the contracts expired, management put on more pressure. It withdrew its offer of the extended contract. This, of course, was a technical move. But despite union claims, no attempt was made to force a strike. The companies agreed to continue the old working conditions and pay scale. But the employees didn't get the 9 cents that would have come to them in June under the terms of the old agreement. There were other changes: the union shop was abolished, and the companies said they would no longer check off union dues to send to the UAW. What's more, shop committeemen were told that they would have less time to spend on grievances and that they would be required to put in more hours at their regular assignments. Finally, although the grievance procedure was retained, the arbitration feature was eliminated. Management itself would decide issues that reached the terminal point of the process.

No contract, continued work

Industry had made its move. Evidently it believed that it could afford to play the waiting game, and it had good reason to think so. Employees had already lost a 9-cents-an-hour pay hike they had seen passed out to non-union workers. The UAW was placed in the position of having to keep its people on the job and to prevent any wildcat group actions that might prematurely upset the apple cart and bring stronger management measures into play. This the union has accomplished. The Summer passed without serious production interruptions. But as the automobile companies began their model changeover, local strikes at feeder plants began to be more and more frequent. By September, 13,000 GM workers were on strike and production had been seriously crippled.

Then, a little more than two weeks later—weeks of hard bargaining—Ford and the UAW signed their contract. For the first time since 1946, Mr. Reuther put his name to a labor agreement that established no new principle in employee benefits.

What, realistically, did Reuther get?

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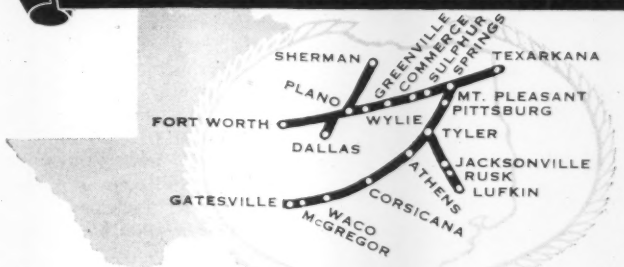

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The new contract provides 9 cents now, 7 cents in 1959 and 1960. He could have had that all along. He gained 5 cents in fringe benefits for pensions and increased pay for skilled workers. But even back in June it was apparent that management would make concessions on these issues, particularly the latter one. He gained severance pay benefits and extended unemployment payments. Evidently these can be financed out of SUB funds. There was apparently enough "fat" in the old contract to provide for some of the benefits of the new one with no increase in company costs. The productivity factor and cost-of-living provisions remain the same.

The new Ford contract runs three years, one year longer than the two-year extension offered last June. This undoubtedly represents a concession to management, for the industry favors long-term agreements.

Adding it up

Despite the fact that 1958 has seen no startlingly new devices introduced in labor-management contracts, some significant things have occurred which will have a long-term effect on labor relations:

- The exposures of the McClellan Committee seriously damaged AFL unions in the AFL-CIO organization. Jimmy Hoffa no longer counter-balances Walter Reuther, and the influence of the latter has increased profoundly. Mr. Reuther may well be on his way to dominating the AFL-CIO as much as he formerly controlled the CIO. In any event, the ideas and labor relations philosophy of the CIO leaders should be in the ascendancy in the combined labor movement.
- The climate of public opinion is changing in regard to the role labor should play in our economy and our politics. Labor still exerts and will continue to exert powerful political influence. However, court decisions, particularly the decisions of a very liberal-minded Supreme Court, have been favoring the individual's rights as opposed to the interests of the group. This will alter labor's use of some of the coercive tactics it has employed in the past.
- The UAW-CIO may revise its approach to collective bargaining strategy, at least to the extent of the big, long-term build-up on specific demands. After all, the purpose of this strategy is political. And it can work against you if the economic climate is not what you expect it to be.
- The automobile companies have cooperated closely in 1958 negotiations. Does this indicate a move toward industry-wide bargaining? Some people think so. But it is doubtful. However, it is very likely in the future there will be much closer cooperation in the industry on labor relations. Even though business is picking up, the squeeze on profits will continue to be tight for the next few years. With wages outstripping productivity, management simply can't afford to give costly benefits that will price its products out of the market.
- Despite the agitation for laws to curb labor excesses, it is unlikely that Congress will make any changes, drastic or otherwise, next year. Indications are that Congress in 1959 will be even more liberal in its attitude, and therefore the push for labor legislation will have lost much of its force.

The question of labor legislation is a complex one. There is very good evidence that an increasing number of employees fear the controls a union exerts over them—witness union losses in representation elections and the small but significantly growing number of decertification elections.

THE AUTHOR • James Menzies Black acquired his broad knowledge of union-management problems working in industry and with management associations. He has long experience in personnel administration and industrial relations, and has written many articles on personnel and collective bargaining. His latest book, *How to Grow in Management*, was recently published by Prentice-Hall, Inc. Mr. Black, who was born and educated in South Carolina, now is on the personnel staff of a large Eastern company.

Labor, politics, and the public

At the same time, the majority of industrial employees vote Democratic, and a Democratic victory is always taken by politicians as a sign that the voters have given a blanket endorsement to labor. Actually, though, because of the complexity of issues in any election, it is difficult to determine what the outcome means specifically to any one of them—and this is true of the public's attitude toward labor. But there is an inexorable movement toward greater controls on its activities. Whether this comes through legislation, court decisions, or from greater restraint by labor leaders themselves doesn't matter.

- Industry will take a long, hard look at the long-term contract and its built-in inflationary features. It has its advantages, that's true—labor stability and knowledge of future costs of the labor bill. But there is another side to the picture. The long-term contract is rigid, and labor costs may skyrocket at the very time that business is in a decline.

Industries in which vast technological changes are taking place also look with a cautious eye on three- and five-year agreements. They want flexibility so they may take full advantage of all technological breakthroughs. And many smaller companies simply can't afford the expense of the automatic wage increase every year.

Many big companies in automotive and steel still take the stand that the long-term contract is advantageous. But the chances are the two-year contract will become more and more prevalent in industry. It's a compromise that grants management protection against declines in the business cycle that are bound to occur from time to time.

In a poker game it is always sound strategy to sit to the left of the suckers. The UAW leadership sits pretty well to the left in any game, though this by no means indicates that the other players are suckers. However, for the first three quarters of 1958 the recession had the deal and management had the high cards. Industry, therefore, had an opportunity to call a halt, if only briefly, on the rapidly spiraling wage-price structure. This should have a beneficial effect on the national economy.

What's in store?

Probably things will be a little more relaxed next year if business continues to improve, but on the whole, barring a sudden and unexpected new boom, bargaining will be along the same lines as in 1958—tight and realistic. When the economy is moving up slowly, bargaining is cautious, and concessions depend on the profit outlook. This means that pattern bargaining will not exert the influence it has in the past. What a union gets at the bargaining table in the future will depend more on the business situation of the particular industry or the particular company it is negotiating with.

Still, Walter Reuther should chalk up 1958 on the credit side. He has seen some of his most dangerous rivals in the union movement lose influence. He has been able to increase his political power tremendously. He has emerged as America's dominant labor leader, overshadowing his titular chief, George Meany. And, considering the state of the economy, he has made out very well at the bargaining table.

So you might say that collective bargaining, at least the way it's practiced nowadays, is like corn likker. When it's good, it's smooth and tasty. But even when it's bad it's still pretty heady stuff.

END

COMING NEXT MONTH

"Management Tries Some Straight Talk"

by Robert Newcomb & Marg Sammons

HOW TO PROFIT

continued from page 43

as they might cause extra costs for workmen's compensation or increased absenteeism during the area's severe Winter weather. Essentially, the handicapped applicants were judged and given jobs on their abilities, not their disabilities.

The handicapped fill all manner of jobs at Ace Electronics. They are in executive, production, assembly, quality control, and clerical positions. The manager of the plant cafeteria, for instance, is a victim of cerebral palsy, now employed on his first real job.

Second to none

Ace conducts no pre-employment medical examinations itself, accepting handicapped applicants only from accredited public and private health agencies and hospitals. It works closely with the Massachusetts Rehabilitation Commission, a major public agency in the field, and it sets high standards of ability for its employees, handicapped or not. Wallace J. Fletcher, a polio victim in charge of personnel, points out that only one person in four in the general population can meet the requirements for hand-and-eye coordination that are needed for a production job at Ace.

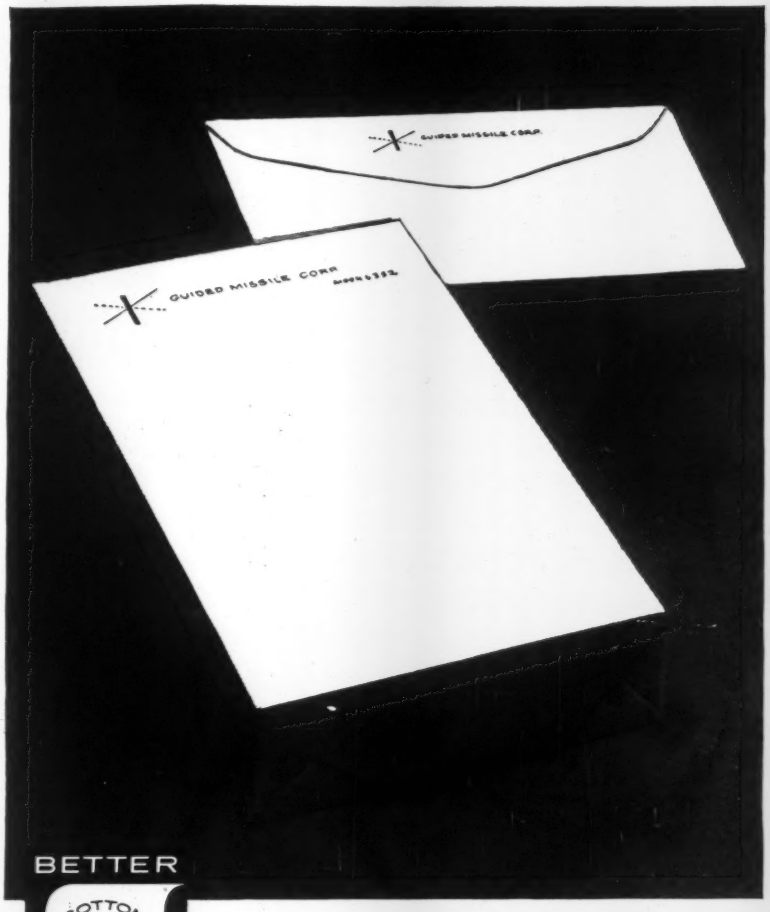
Ten of the electronic concern's employees suffer heart disabilities—one of the greatest single disability risks today, according to the Massachusetts Industrial Accident Board. A job applicant suffering a heart condition must be evaluated at the local Cardiac Work Classification Unit, which forwards a summary of medical findings and vocational recommendations to the company's personnel director.

"Our company, in common with many others," says President Solomon, "incurs a considerable overhead cost each year to measure the strength and conformity to high standards of the materials and manufactured components used in our end product. We believe it to be vital to apply similar standards to our other major cost item—manpower—and we work at it."

Pre-tested, carefully placed, Ace's handicapped are probably better fitted to and better able to do their specific jobs than the nonhandicapped hired on a catch-as-catch-can basis. And, once hired and placed, they are held to the same standards of performance that anyone else would be.

The company's policies won it a commendation this year from General Melvin J. Maas, chairman of the President's Committee on Employment of the Physically Handicapped, as an outstanding self-supporting company employing a majority of handicapped workers.

—ALFRED G. LARKE



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HIGH TEMPERATURES

continued from page 39

- Development costs must be amortized rapidly because of rapid obsolescence.

To offset the braking effect of high costs, a profound change in technology has taken place. For decades, progress in materials was so uncertain that new designs could be based only on commercial materials. Still, these were adequate for the designers of the day. The Space Age has changed all that. Now the missile makers either base their revolutionary new designs on projected progress in materials or decide what materials they will need and charge suppliers to come up with them—on schedule.

Standard parts

Conservative industry has taken only a few flyers at "prefabricated designing" so far, but in a few years it should be commonplace. One compelling factor will be the ever-increasing lead times needed to design ever more complex equipment. If designers specify existing materials for a machine that won't be in production for five or six years, it will be obsolete by the time it reaches the market.

To a certain extent, it is possible to "design around" high temperatures, just as the missile makers blunt the noses of the Thor and Atlas missiles to protect them from the highest frictional temperatures. But new structural materials in the long run will be the only answer. In addition, coolants, lubricants, sealers and fastening materials are required. However, once the basic loadbearing materials are developed, these accessories should be provided quickly.

The materials picture

In structural hi-temp service, metals are still king because of their strength and ductility—and also because designers are accustomed to them. Stainless steel is the dominant metal, but it is approaching retirement in many tough situations.

Two metallurgists at the Niagara Falls Laboratories of the Electro Metallurgical Company recently have completed a study that should indicate which metals will replace stainless. C. M. Brown and R. W. Fountain have worked out a ratio between the melting point and maximum service temperature of metals —60 per cent of the melting point for alloys and 40 per cent for pure metals.

Applying their formula, Brown and Fountain have made the following predictions:

- Titanium-base alloys will be useful in the range to 1,600° F.
- Columbium-base alloys well may be developed for temperatures to 2,500° F.
- Molybdenum-base alloys should be found suitable in the range to 2,600° F.

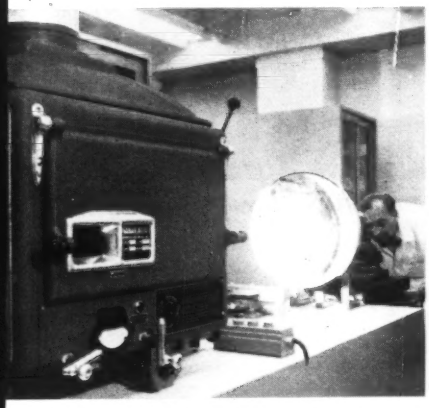
● Tungsten-base alloys will be developed with useful strength up to levels of 3,400° F.

By using this ratio, research management can tell where the promising opportunities lie, and where they are doomed to costly inching ahead.

Ceramics: pros and cons

Next to metals, ceramics are the most commonly used refractory material. The best ceramics can withstand temperatures far in excess of the maximum operating temperatures or even the melting points of hi-temp metals.

However, most ceramics have little resistance to impact and "thermal shock," which is a fancy name for the effects of rapid heating or cooling. Improved thermal shock resistance in refractory materials has particular significance to all industries that use high heat in processing their product. Some big electric furnaces take 14 days to warm up. If heating is rushed, the refractory lining will crack. Cutting warm-up time to a few hours would automatically increase the capacity of these key parts without any noticeable increase in capital investment.



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There are some ceramic materials with excellent resistance to thermal shock—carbon, for instance. Although a pure element, not a compound like the usual ceramics, carbon and its crystalline form, graphite, are classed with ceramics. Carbon is now the standard lining material for blast furnaces, with up to 200 tons lining each of 156 of the 265 American installations. Graphite, which has the unusual property of growing stronger with increasing temperature, is made into nozzles and vanes for rocket engines. Both can function at

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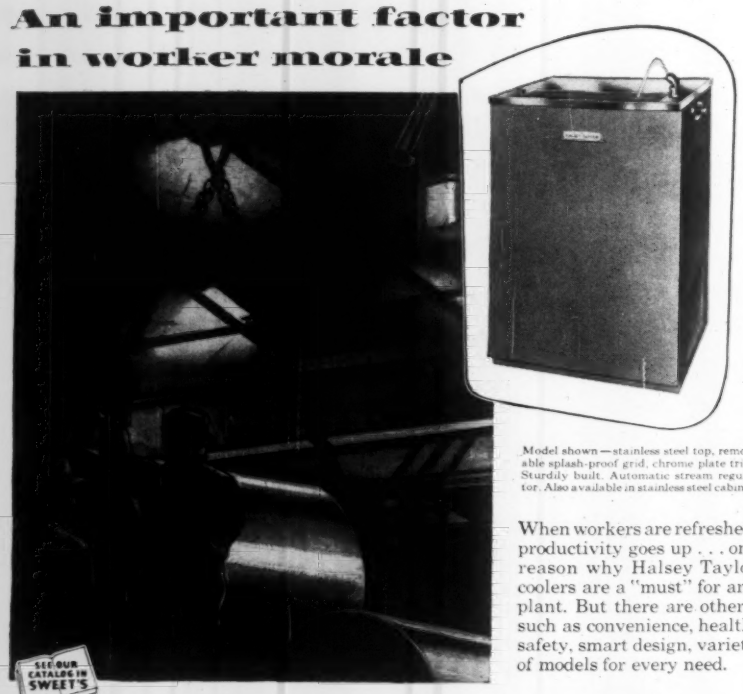

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One auto manufacturer is particularly interested in Pyroceram as a piston material for free-piston engines. They would not expand in going from starting to operating temperatures. The same property intrigues another car maker, who is studying Pyroceram for valves.

By volume, Pyroceram is about the same price as stainless steel, yet it is much lighter. However, it is as brittle as any ceramic or glass.

Disappointment in cermets

Cermets—metal-ceramics—have been a disappointment as refractory materials. The idea behind the postwar genesis of these combinations was simple: by intimately mixing the two classes of materials together, the ductility of metals would be complemented by the high-temperature resistance of ceramics. Unfortunately, the promise never has been fulfilled: expensive cermets are as brittle as ceramics and have little impact resistance. However, their resistance to oxidation and their non-whetting characteristic makes them valuable as pouring spouts for copper and brass smelters. Since they have the high thermal con-

ductivity characteristic of metals, cermets make good crucibles for melting metals.

The nose cones of some of the latest missiles are made of plastic reinforced with glass or asbestos fibers. The cone does burn at reentry temperatures—up to 25,000° F—but slowly enough to hold together.

Plastics and coatings

Industrial applications for this unexpected virtue of reinforced plastics are nonexistent or extremely rare, but it does raise the pleasant prospect of low-cost plastics that eventually will perform continuously at high temperatures. Already some last 500 hours at 500° F. Meanwhile, the maximum service temperatures of plastics (and rubbers—see page 103) are being pushed up and up.

Except in crucial locations or where only small amounts are needed, industry undoubtedly will have to solve its high-temperature problems without the costly exotic materials—or wait until they drop in price.

Unglamorous coatings offer a real alternative. Only a few thousandths of an inch thick, they frequently add a crucial quality to the base. For instance, molybdenum can't exist very long without a coating. It oxidizes rapidly, but the oxide, unlike the tough, clinging oxide of aluminum, turns into a vapor. However, as an expert put it, "Coatings are no better than the pinholes in them."

Looking ahead

Manufacturers interested in finding industrial jobs for the latest materials developed for weaponry can be sure that at least experimental quantities will be released by the military, who want industry to help share the cost of maintaining production facilities. In addition, a few years usually are required to uncover all the limitations of a new material, and the more varied the applications, the faster performance data can be collected.

Although not so dramatic as the advances in new materials, the new *knowledge* acquired about older materials as a result of defense work may be just as fruitful to industry. For example, some well-known materials exhibit ten to 100 times commercial strengths in the laboratory. If the theoretical limits could be approached by even a few more percentage points, perhaps it would not be so necessary to search the world over for exotic materials.

Development of hi-temp materials also offers many by-product benefits. Most of the new materials have other valuable properties, also useful at ordinary temperatures. For instance, titanium, originally purified for its high-temperature strength, is finding civilian application in oil refineries, chemical, pulp and paper, and food processing

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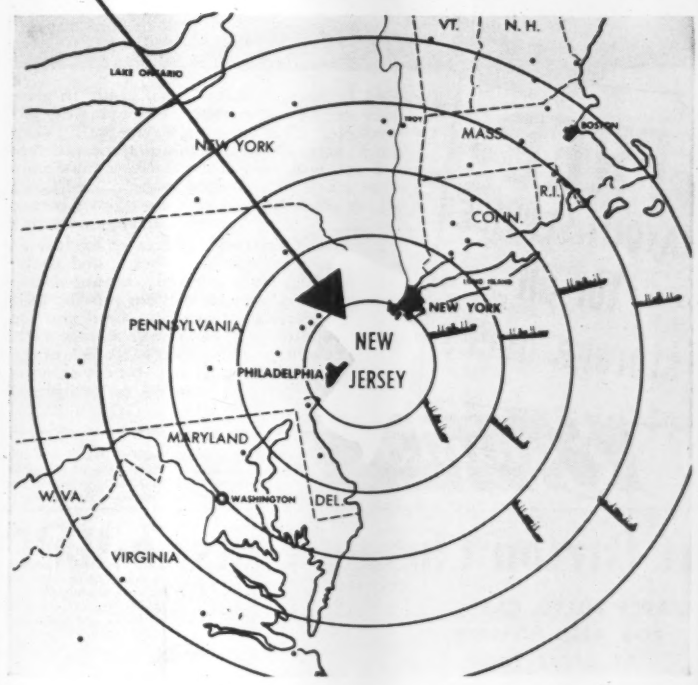

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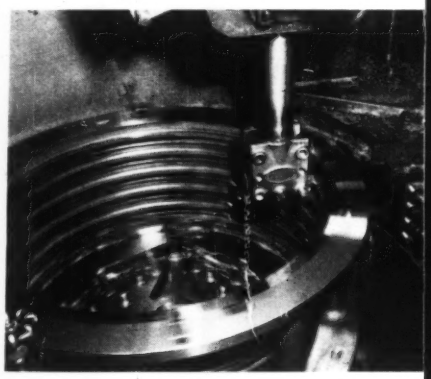
plants because of its excellent corrosion resistance.

The increasingly complex market in high-temperature materials is putting many design engineers at a disadvantage. Limited in many cases by incomplete knowledge of metals, they often are completely ignorant of the properties of ceramics. Some companies, notably Minnesota Mining & Manufacturing, are meeting the situation by adding materials specialists to their product-design teams.

Revised role for purchasing

Management also must consider the need for more technical training of purchasing men—or their downgrading to the status of "order placers." As material technology grows, design engineers and production people have frequently been forced to by-pass the purchasing men and deal directly with suppliers.

The Russians, who are apparently neck-and-neck with the United States in the high-temperature field, have one important advantage—their lesser concern for human safety. Before U.S. industry puts any new material into equipment operated by or near human beings, it must be exhaustively tested and rated conservatively. The Soviets are more daring and can move faster. If a few people are killed in the disintegration of a new steam turbine, the Russian designer doesn't worry too much about government investigating committees.



CUT AND TRY: *Before parts can be fabricated out of the new hi-temp materials, production men have to learn how to work with them. Here, at Ryan Aeronautical Company, San Diego, a new refractory metal is undergoing an extensive machineability test.*

As the military rushes in where civilians fear to tread, industry may gasp at the thought that a healthy share of the billion-dollar refractory materials development program is paid for by its tax dollars. However, business men can take solace in the knowledge that these amazing metals and ceramics soon will pay great dividends to the U.S. economy.

END

Advertising Index

—A—

Acco Products, Division of Natser Corporation 98
La Porte & Austin, Inc.
Acme Visible Records, Inc. 132
E. H. Brown Advertising Agency
American Credit Indemnity Company 66
VanSant, Dugdale & Co., Inc.
American & Foreign Power Company, Inc. 30
Godwin Advertising Agency
American Metal Products Company, Storage Rack Division 74
Roland G. Spedden Advertising Agency
American Motors Corp. 15
Geyer Advertising, Inc.
American Telephone & Telegraph Co. ..... Cover III
N. W. Ayer & Son, Inc.
Armco Drainage & Metal Products 65
N. W. Ayer & Son, Inc.
Avis, Inc. 2
McCann-Erickson, Incorporated

—B—

Baltimore & Ohio Railroad 62
The Richard A. Foley Advertising Agency, Inc.
Bassett, W. E., Company 133
Neary Advertising Agency
Big Joe Manufacturing Company 16
E. H. Brown Advertising Agency
Borroughs Manufacturing Company, Subsidiary American Metal Products Company 104
Roland G. Spedden Advertising Agency
Bunn, B. H., Co. 13
Robertson, Buckley & Gotsch, Inc.
Burroughs Corporation 68–69
Campbell-Ewald Company
Butler Manufacturing Company 83
Aubrey, Finlay, Marley & Hodgson, Inc.

—C—

Cambridge Wire Cloth Company, The 108
Emery Advertising Corporation
Carey, E. A. 82
Grant, Schwenk & Baker, Inc.
Chase Manhattan Bank, The 95
Albert Frank-Guenther Law, Inc.
Chevrolet Motor Division—General Motors Corporation 59
Campbell-Ewald Company
Chicago and North Western Railway 25
The Caples Company
Columbia Ribbon & Carbon Manufacturing Co., Inc. 118
E. M. Freystadt Associates, Inc.
Comet Press Books 82
Chelsea Advertising, Inc.
Commercial Credit Corporation 12
VanSant, Dugdale & Co., Inc.
Comptometer Corporation 109
Henri, Hurst & McDonald, Inc.
Cooke, J. Leo, Warehouse Corp. 19
DuFine & Company, Inc.
Cook's Confections 90
Stone-Stevens, Inc.
Corps of Engineers, U. S. Army 117
Gotham-Vladimir Advertising, Inc.
Cushman & Denison Mfg. Co. 90
Knox, Kornfeld & Smith, Inc.
Cutler-Hammer, Inc. 84
Kirkgasser-Drew

—D—

De JUR Amsco Corporation 61
Friend-Reiss, Inc.
Detroit Lectern Company, Inc. 125
Ross Roy, Inc.
Dictaphone Corporation 20
Young & Rubicam, Inc.
Ditto, Inc. 27
Henri, Hurst & McDonald, Inc.
Du Kane Corporation 79
The John Marshall Ziv Company
Dun & Bradstreet, Inc. 112

—E—

Eagle Picher Company, The 91
The Ralph H. Jones Company
Eastern Express, Inc. 97
Kuttner & Kuttner, Inc.
Eastman Kodak Company (Verifax) 4–5
J. Walter Thompson Company
Equipto 136
Arthur R. Mogge, Inc.
Executone, Inc. 73
The Joseph Katz Company

—F—

Fluor Corporation, Ltd., The 46
Hixson & Jorgensen, Inc.

—G—

General Fireproofing Company 18
The Griswold-Eshleman Co.
General Merchandise Co. 119
Fairman Advertising
Gilbert Paper Company ..... Cover IV
Frank C. Nahser, Inc.
Graphic Systems 82
Diener & Dorskind, Inc.
Gray Manufacturing Co. 45
Lewin, Williams & Saylor, Inc.
Great Northern Railway Co. 121
John W. Forney, Inc.

—H—

Hertz System, Inc. 87–88
Campbell-Ewald Company
Heyer Corporation, The 71
Marvin E. Tench Advertising Agency, Inc.
Hill, R. O. H., Inc. 100
The Buckley Organization
Hydroway Scales, Inc. 124
Sales and Merchandising Counsellors
Hy-Test Safety Shoes, Division of International Shoe Company 114
Jos. E. Schmitt, Inc.

—I—

Indiana Department of Commerce and Public Relations 21
Mark Gross and Associates
Industrial Marking Equipment Company, Inc., The 114
The Wesley Associates, Inc.
International Staple & Machine Co. 136
Batz-Hodgson-Neuwoehner Advertising Agency
International Steel Co. 63
Keller-Crescent Co.

—L—

Link-Belt Company 8
Klau-Van Pieterson-Dunlap, Inc.

—M—

Magline, Inc. 94, 113
Rossi and Company
Mahon, R. C., Company, The 26
Anderson, Inc.
Manifold Supplies Company 114
Williams Advertising Agency, Inc.
Marshall and Stevens, Inc. 80
Gerth, Brown, Clark & Elkus of Los Angeles, Inc.
Marsh & McLennan, Inc. 120
Doremus & Company
Merrill Lynch, Pierce, Fenner & Smith 58
Albert Frank-Guenther Law, Inc.
Minnesota Mining & Manufacturing Company 86
Erwin Wasey, Ruthrauff & Ryan, Inc.
Mississippi Agricultural & Industrial Board 78
Gordon Marks & Company, Inc.
Monsanto Chemical Company, Organic Chemicals Division 111
Gardner Advertising Company
Mosler Safe Company 101
Cunningham & Walsh, Inc.
Mueller Brass Co. 127
Price, Tanner & Willox, Inc.
Murray, D. J., Manufacturing Co. 89
R. C. Breth, Inc.
Muzak Corporation 7
Schwab and Beatty, Inc.

—N—

National State Bank of Newark, The 138
Williams and London Advertising
National Truck Leasing System 124
W. S. Kirkland
New Jersey, State of, Department of Conservation and Economic Development 135
Robert Conahay, Inc.
Niagara Mohawk Power Corporation 67
Batten, Barton, Durstine & Osborn, Inc.
Niagara Therapy Mfg. Corp. 70
George L. Mallis, Inc.
Niles, Shepard, Crane & Hoist Corporation 116
Taylor M. Ward, Inc.
North American Van Lines, Inc. 76–77
Applegate Advertising Agency, Inc.

—O—

Office Products, Inc. 94
Sales and Merchandising Counsellors

—P—

Philco Corporation, Government and Industrial Division 105
Maxwell Associates, Inc.
Pitney-Bowes, Inc. 96
L. E. McGivena & Co., Inc.

—R—

Railway Express Agency ..... Cover II
Benton & Bowles, Inc.
Ransburg Electric-Coating Corp. 60
H. L. Ross Advertising
Raymond Corporation, The 106–107
Taylor M. Ward, Inc.
Recordak Corporation, Subsidiary of Eastman Kodak Company 75
J. Walter Thompson Company
Recorday Company 92
Reznor Manufacturing Company 98
Kight Advertising, Inc.
Rock Island Lines 81
Aubrey, Finlay, Marley & Hodgson, Inc.
Royal McBee Corporation 17
Young & Rubicam, Inc.
Ryder System, Inc. 134
Grant Advertising, Inc.

—S—

St. Louis Southwestern Railway Lines 129
Batz-Hodgson-Neuwoehner Advertising Agency
San Bernardino County Board of Trade 125
Gage Booth and West
Snell, Foster D., Inc. 24
St. Georges & Keyes, Inc.
Southern New Jersey Development Council 126
The Cowan Advertising Agency
Spector Freight System, Inc. 28–29
Garfield-Linn and Company
Standard Instrument Corporation 100
Richard-Lewis Corp.
Standard Oil Company (Indiana) 22
D'Arcy Advertising Company
Stauffer Reducing, Inc. 115
Foote, Cone & Belding
Sten-C-Labl, Inc. 123
Gibson-Erlander, Inc.

—T—

Taylor, Halsey W., Co., The 134
The Advertising Agency of William Cohen
Tel-A-Story, Inc. 82
Warren & Litzenberger
Texas Power and Light Company 132
Don L. Baxter, Inc.
Textile Banking Company 128
L. E. McGivena & Co., Inc.
Times Facsimile Corporation, Stenafax Division 129
Thomas & Douglas, Inc.

—U—

Union Pacific Railroad 72
The Caples Company
United Air Lines 11
N. W. Ayer & Son, Inc.
United States Steel Corporation 6, 102, 122
Batten, Barton, Durstine & Osborn, Inc.
Uptegraff, R. E., Manufacturing Company 93
Downing Industrial Advertising, Inc.

—V—

Vari-Typer Corporation 14
Bruce Angus Advertising Agency

—W—

Wagner Electric Corporation 138
Arthur R. Mogge, Inc.
Wassell Organization, Inc. 125
James R. Flanagan Advertising Agency
Weston, Byron, Company 131
Walter B. Snow and Staff, Inc.
Wire & Iron Products, Inc. 124
Rossi and Company

—Y—

Yoder Company, The 64
G. M. Basford Company

—Z—

Zippo Manufacturing Co. 99
Ogilvy, Benson & Mather, Inc.

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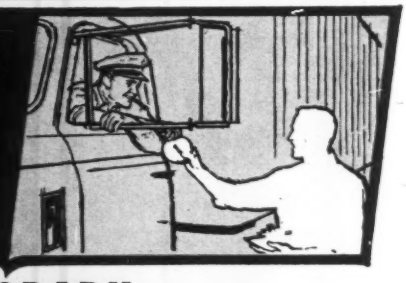

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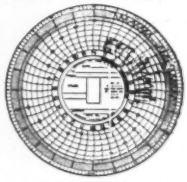

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The Reviewing Stand

● Looking across the industrial haze of the Jersey meadows from the vantage of his swivel chair in downtown Manhattan, the Editor has rubbed together a batch of new survey statistics and conjured up the image of the typical DR&MI reader. The reader thus assuming shape and dimension is human enough. He differs from the run-of-the-mill product of vital statistics only in degree, but the degree is substantial in such matters as executive talent, mental energy, and personal responsibility. He is a leader—not only in the business sphere but often in political and social progress as well.

● But what matter of man is he? What is his economic stature and executive dimension? Well, from one perspective he is a manufacturer. A little more than half of the readers of DR&MI—51.7 per cent, to be exact—fall into this category. Looking at another angle to include mining, petroleum, construction, transport and communication, you add another 8.6 per cent. From another aspect you see him as a distributor, banker, insurance man, or business service specialist and you add 35.2 per cent more for a total of 95.5 per cent. Much of the remaining 4.5 per cent is accounted for by government officials, consultants, and economists who must keep up with the basic trends of industry and trade.

● Sharpening the focus, we see that the typical DR&MI reader is primarily a decision maker, most likely at the top management level. Of the total readership 73.5 per cent are corporate officers, and of these 53,402 (44.6 per cent of all DR&MI readers) are presidents.

● Compensation is an interesting sidelight in any discussion of top or middle management. The "average" reader (who, strictly speaking, does not exist) of DR&MI earns $27,015, while the "median" income of DR&MI readers—i.e., the midpoint of the range—is $21,739. The 25 per cent of readers who earn from $30,000 up essentially represent top management. Middle management make up a sizable share of the 44 per cent averaging from $10,000 to $30,000 annually. The typical reader represents some of the achievement of top management and much of the promise and potential of middle management. At least, that's the way he looks from the Editor's swivel chair. —A.M.S.

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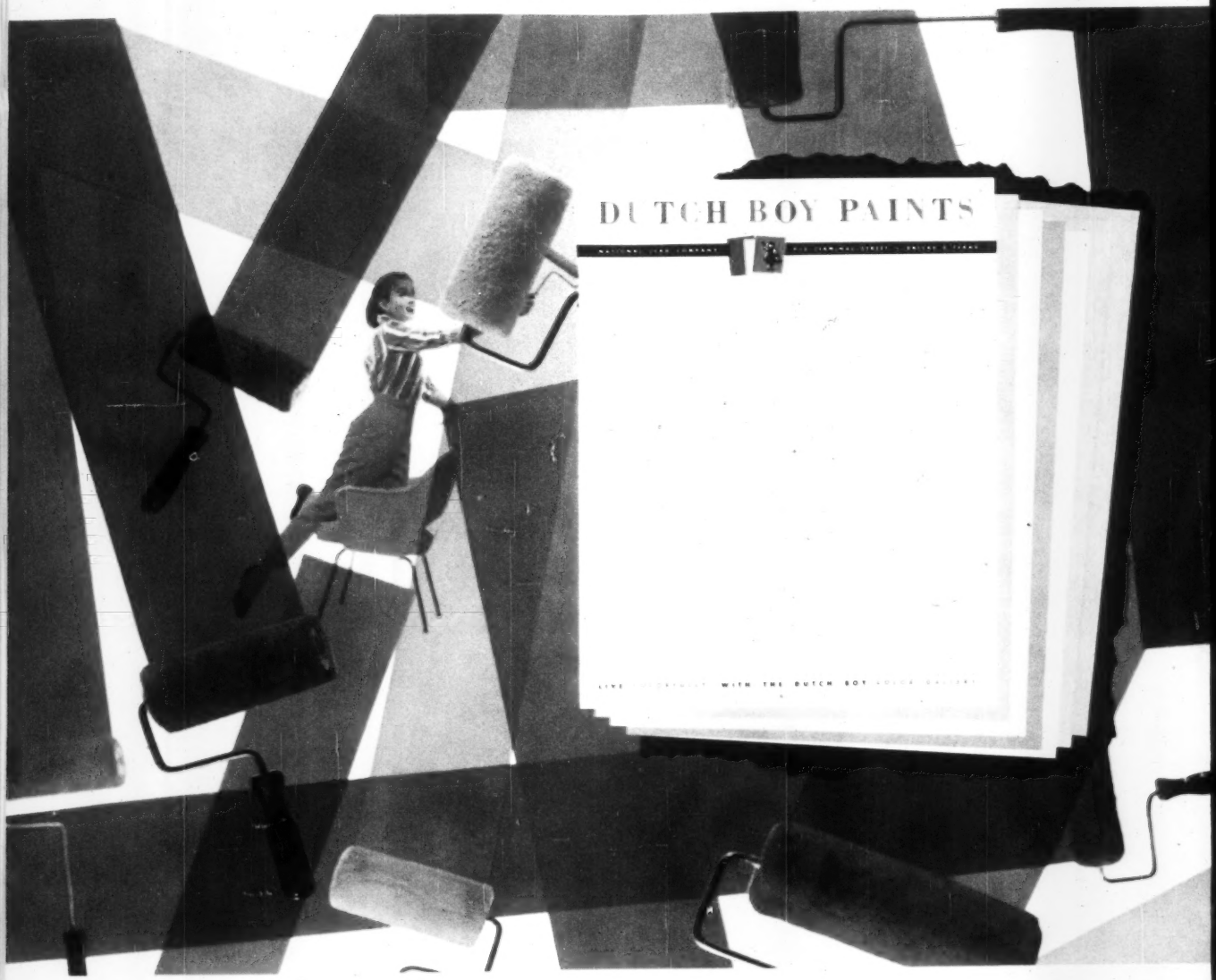

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